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Overall Approach and Structure of the Document

This document emerged from a process of engagement with all COSATU affiliates as a way to mobilize an input into the growth path process, and to consolidate COSATU's perspectives on various aspects of what should constitute a new growth path framework.

1. This is a **framework document, though it is fairly high level, it does make some specific proposals in various areas** which will later be elaborated in a number of ways, and refined further as a result of detailed engagement. Areas of elaboration could include:
 - More detailed policy proposals in areas identified by the framework document
 - Elaboration of different scenarios, e.g. scenarios about labour intensity, etc.
 - Broad costing of proposed interventions, costs of not intervening and the benefits of intervention
2. The document will be used as a basis for engagement with government and the Alliance.
3. We will also use the document as a basis to solicit inputs from civil society into the growth path process. We call for inputs on our framework document, for further development and amendment, and we will convene a forum of civil society organisations to engage on their inputs. Government would also be invited to address this forum.

The document is structured as follows:

1. In **Part I**, it discusses the historical evolution of the concept of the growth path, what is wrong with the current growth path, the pillars of our proposed growth path and the role of the state.
2. In **Part II**, the document discusses Economic Policy, and makes some proposals regarding Industrial Policy where an outline of the industrial structure of this new growth path is presented, Rural Development, Trade Policy, Skills Development and Training, and Macroeconomic Policy
3. In **Part III**, the document discusses Social Policy and makes proposals on education, healthcare, housing, crime, corruption and the criminal justice system, basic infrastructure and services provision, environmental sustainability
4. In **Part IV**, the document discusses forms of ownership that should drive

this growth path. It discusses the role of public ownership of strategic sectors, Co-operatives SMME's and support for the private sector in the sectors that are critical in this growth path.

5. In **Part V** the document discusses Southern Africa's regional development strategy. It highlights the fact that the system of capital accumulation that is failing to create jobs in South Africa is currently expanding its tentacles throughout the region and shows that a failure of South Africa to change this system spells doom for broad-based development in the region.
6. **Part VI** concludes the document.

For convenience we use the phrase "**growth path**" to refer to a "**growth and development path**". Our perspective of a growth path therefore includes issues of social equity, environmental sustainability and moves beyond the narrow definition of economic growth

PART I: BACKGROUND AND CONTEXT

1. Where Do We Come From?

1.1 In 1990, a workshop on “Economic Policy for a Post-Apartheid South Africa” was convened by the COSATU Economic Trends Group and the ANC Economics Department to come up with some recommendations on economic policy for a Post-Apartheid South Africa¹. That workshop was attended by researchers from a number of institutions, part-time economists of the ANC, some ANC leaders, COSATU representatives and COSATU economists. The significance of that workshop is that it introduced the concept of a **growth path** in the policy discourse of the democratic movement².

1.2 In that period, COSATU’s thinking about economic policy questions was impelled by the twin forces of rapidly rising poverty and suffering, and “a realisation that this growth crisis had deep structural roots located in the particular combination of capitalism and apartheid that shaped our present society and economy”³. Because resolving these problems required a package of policies and a coherent strategy, an emphasis on the concept of a **growth path** was made. In 1992, COSATU proposed that a growth path framework should deal with six distinct areas:

- Principles of Economic Policy
- Redistribution
- Industrial Policy
- The Role of the State
- Building Workers’ Power
- Southern Africa

1.3 The ANC subsequently issued its policy guidelines, encapsulated in the Ready to Govern to document, in which it also argued that the main priorities are:

- Eliminating the poverty and the extreme inequalities generated by the apartheid system;
- Democratizing the economy and empowering the historically oppressed;
- Creating productive employment opportunities at a living wage for all South Africans

1 Workshop on Economic Policy for a Post-Apartheid South Africa, Harare 28 April—1 May 1990.

2 The concept found prominence in the subsequent Ready to Govern: ANC Policy Guidelines, 28—31 May 1992 and has ever since found citizenship among some important policy documents.

3 Report of the COSATU Economic Policy Conference, 27—29 March 1992.

- Initiating growth and development to improve the quality of life for all South Africans, but especially for the poor
- Developing a prosperous and balanced regional economy in Southern Africa based on the principles of equity and mutual benefit;
- Giving due regard to the environmental impact of the implementation of economic policy

Two pillars were identified to achieve these objectives. These were:

- **Redistribution programmes** to meet the basic needs of our people
- A comprehensive **industrial strategy**

1.4 Subsequent to these processes, a crystallization of ideas, based on extensive research around these key areas, emerged in 1993 in the form of a book called “Making Democracy Work: A Framework for Macroeconomic Policy in South Africa”. This book was based on background research by both international and local economists who shared the vision and principles of the democratic movement. In its opening line, the book says: “The political transformation of South Africa will make it possible to achieve economic growth and to set realistic goals for improved living standards and economic security for all South Africans, especially the most disadvantaged. Without a **new growth path** to put these goals within reach, political transformation itself will be in jeopardy”⁴.

1.5 The MERG Report presented detailed proposals on a range of areas, informed by the resolutions of both the ANC and COSATU. These proposals included:

- Macroeconomic Policy
- Social and Economic Infrastructure
- Labour Market Policy
- Rural Development and Food Policy
- Industrial, Corporate and Trade Policy
- Banking and Finance
- The Role of the State

1.6 Although the MERG Report was ultimately not endorsed by the ANC leadership due to the anti-working class ideological shifts that were underway, most [?] of these detailed recommendations ultimately found expression in the Reconstruction and Development Programme (RDP) in 1994. The RDP outlined six principles that make up the political and economic philosophy of reconstruction and development policies in South Africa:

4 Making Democracy Work: A Framework for Macroeconomic Policy in South Africa: A Report from the Macroeconomic Research Group to the Members of the Democratic Movement in South Africa, Centre for Development Studies, University of the Western Cape, 1993.

- An Integrated and Sustainable Programme
- A People-Driven Process
- Peace and Security For All
- Nation-Building
- Link Reconstruction and Development
- Democratisation of South Africa

In order to implement the RDP, five key programmes were identified by the democratic movement. These were:

- Meeting Basic Needs
- Developing Our Human Resources
- Building the Economy
- Democratising the State and Society
- Implementing the RDP

1.7 The evolution of economic thinking, the formulation and development of social and economic policy for a democratic South Africa has not been as seamless as the above narration suggests. It was brought about by the strengths and assertiveness of the working class in the policy formulation and discourse *within* the democratic movement. Immediately before the democratic movement could settle on the levers of state power, the underhanded and hidden policy contestation came to the open in 1996, with the emergence of the Growth, Employment and Redistribution Framework (GEAR)⁵. In fact, a warning of what was to come in Gear, was contained in the ‘six-pack’ announcement in 2005, which proposed a package of conservative measures, including wholesale privatisation. These documents, unlike others that came before it, did not emanate from the structures of the movement, but were crafted in a terrain where working class hegemony was severely limited—in the state apparatus.

1.8 Proponents of GEAR justified its introduction on the basis that it gave effect to the realisation of the RDP. Some leaders felt that the RDP, noble its objectives and philosophy might have been, was simply not possible to implement. The main reason that was put forward for GEAR was that the economy could not sufficiently generate sufficient resources to finance the programmes outlined in the RDP unless “more deep-rooted reforms” are given attention⁶. These reforms were⁷:

5 It could be argued that off-shoots of neo-liberalism emerged in 1992 in the Ready to Govern document, where it is mentioned that: “Emphasis will be placed on macroeconomic balance, including price stability and balance of payments equilibrium”, and furthermore in the 49th Conference of the ANC held in Bloemfontein in 1994, where it was noted: “That the economic legacy of apartheid featured levels of inequality, unemployment and economic disempowerment of the majority, and the concentration of ownership by the large conglomerates” but then we “resolved to endorse belt-tightening...fiscal discipline, along with monetary stability...”

6 The trouble with these justifications was that they never challenged the concentration of power by a few conglomerates. The justifications about lack of resources to fund the RDP were drummed up whilst conglomerates continued to take capital out of the country.

7 Growth, Employment and Redistribution: A Macroeconomic Strategy, Department of Finance

- Accelerate Fiscal Reform
- Gradual Relaxation of Exchange Controls
- Market-driven Trade and Industrial Policy
- Public sector restructuring, including the promotion of public-private partnerships
- Social and Economic Infrastructure Expansion
- Labour Market Flexibility for a **Labour-Intensive Growth Path**
- A Social Compact for Price and Wage Moderation

1.9 Basically, the philosophical underpinnings of GEAR were at odds with the historical positions of the democratic movement. The constraints of fiscal policy that GEAR lamented were not analytically explained and the proposals contained in prior policy documents were ignored. The relaxation of exchange controls paved the way for capital outflow, thereby taking away South Africa's financial resources to fund the RDP. Trade policy was not linked to job creation and made no reference to the promotion of progressive internationalist principles. Industrial policy did not specify sectors to be supported, and made no mention of how to deal with the power of monopoly capital. The push for labour market flexibility departed from the principle of building workers' power and denied the fact that the working class already suffered high levels of exploitation.

1.10 In response, COSATU put forward its own framework that gave effect to the realization of the RDP in the form of a policy document: Social Equity and Job Creation (SEJC). The SEJC used the RDP as an entry point. But the SEJC, unlike GEAR, rooted its understanding of the RDP from the standpoint of the political and economic philosophy that historically underpinned the thinking of democratic movement on policy questions. Unlike GEAR, the SEJC pointed out the historic roots of South Africa's socio-economic challenges in colonialism, racism, apartheid, sexism and repressive labour policies. The SEJC re-asserted the relevance of the historic pillars of our vision of a growth path for a democratic South Africa⁸:

- A Programme for Job Creation
- A Redistributive Fiscal Policy
- The Break-up of Economic Concentration
- The Promotion of Worker Rights
- The Building of Industrial Democracy

1996, p.4.

8 Social Equity and Job Creation—The Key to a Stable Future, Proposals by the South African Labour Movement, 1996, p. 10.

- Promotion of Equity and Economic Development Globally

- 1.11 The experience of the working class and the vast majority of South Africans of the GEAR experiment will be described below. The triumph of GEAR over the SEJC in informing the policies of the democratic government raised an important question about the mechanisms through which the South African working class sought to assert its hegemony over the state apparatus. It also brought to the fore the need for the working class to sharpen its tactics in the deployment of its forces by becoming more concrete about the sites of resistance and platforms of engagement. Working class hegemony in the democratic movement alone was no longer sufficient, but hegemony over the levers of state power became a pressing issue of concern⁹.
- 1.12 This led COSATU to raise the following question in 2001: how do we account for the shift to the right in economic policy, especially after 1996? The answer was that there was a change in the balance of power. White capital had successfully won sections of the formerly oppressed into its fold. “Linked to this is the emergence of a “bureaucratic bourgeoisie” that uses its access to the state to expand the class of black capitalists”. COSATU further pointed out that “the hegemony of the working class was being eroded by forces that seek a deracialised form of capitalism, with no interest in the long-term objective of building socialism”¹⁰.

2. What is Wrong with the Post-1994 Growth Path?

- 2.1 What then is the location and purpose of this framework document in the historical evolution of the thinking of COSATU about economic policy?
- 2.2 **Firstly**, this document emerges out of 16 years of experience with neo-liberal democracy. Whilst indeed political democracy has been deepened in many respects, it is in the field of the economy and ideology that it has failed to take root. In class terms, democracy benefitted those who own economic resources than the working class and the poor. Decisions about the nature and pattern of capital accumulation, social and economic policy, legal institutions and cultural expressions, political practice and the administration of the state, are still biased towards capitalist class interests. To a large extent, the state remains insensitive to the plight of the working class majority.

9 Two instances are instructive in this regard. Firstly a consensus on the role of the state was reached in 1998, but this had little impact on government policy. Government continued to downsize and right-size the public service (See the Report: “Accelerating Transformation”, 2000, p.71). Secondly, the “post-GEAR consensus” of 1998 showed that “Alliance agreements appeared to have limited impact on thinking at the level of government” (Accelerating Transformation, p.85).

10 COSATU Central Executive Committee Political Discussion Paper, July 2001.

- 2.3** **Secondly**, in almost all the key aspects of development, the policies of the past 16 years have failed to deliver tangible material progress for the working class. The working class has been severely marginalized from effectively participating and staking its claim, in the economy in a number of ways: through the scourge of unemployment, an extremely flexible labour market in the form of casualisation, outsourcing and the use of labour brokers, the commodification of basic needs and the suppression of workers' wages below productivity gains. All these factors are meant to break the power of the working class, increase the power of capital and to boost the profitability of the capitalist system as the basis to support economic growth.
- 2.4** **Thirdly**, the points of departure, the problems initially identified in 1990, are still persistent and remain stark under the democratic cloak. Economic growth reproduces inequality of incomes and power, poverty and unemployment. The structure of economic growth has deepened the structural instability associated with mineral-dependent economies in a finance-led world. In almost all spheres of society power still rests with the white minority, which co-opts the black elite, in pursuance of the interests of capital and imperialism.
- 2.5** **Fourthly**, experience has shown that there is complexity in the chain of policy-making; the link between policy formulation and implementation is not straightforward. It is not obvious that consensus policy positions that emerge from Alliance deliberations find expression in ANC policy directives, and neither is it obvious that ANC policy directives will find expression in government policy, and neither is it obvious that government policy will be implemented by the state bureaucracy¹¹. Further complications arise because in each of the links in the policy-making chain, there are various layers through which power shifts. In the light of this experience, the working class has to re-assess its engagement strategy and avoid the risk of being managed through unending internal engagements, whilst reactionary policies continue to be imposed by the state.
- 2.6** **Fifthly**, this growth path framework emerges within the context of the worst global economic crisis since the 1930's. In the South African case, we have lost over 1.1 million jobs between 2009—2010. **This amounts to an average of R35 billion worth of employees incomes being lost**, given the average wage of R33 773¹². **This has plunged 5.5 million South Africans into poverty**. The speed with which jobs have been lost, in the context where income distribution has worsened, shows that the

11 An instance in this regard is the issue of the youth wage subsidy, which was rejected by COSATU and later by the ANC NGC in 2005. This issue disappeared from the radar, only to emerge in the Budget Speech on 17 February 2010 from the ranks of the state bureaucracy. More instances are cited in the COSATU report on "Accelerating Transformation"

12 These are based on the Quarterly Labour Force Surveys (2009 and 2010) and Quarterly Survey of Employment and Earnings (2009).

types of jobs that have been created are vulnerable. But this also shows the failure of past policies to build a strong internally cohesive productive base and shifting away from reliance on mineral exports. It also shows the weaknesses in existing macroeconomic policies to respond to shocks, and to promote jobs as the first priority.

2.7 The following **ten key factors underline what is wrong with the post-1994 growth path**. These factors have prompted COSATU to re-instate the concept of a “new growth path” in policy discourse, a move which is also more broadly accepted in the Alliance today, and, at least formally, in government:

- **The persistence and increase in unemployment:** Unemployment among Africans was estimated to be 38% in 1995 and it stood at 45% in 2005. Overall, the unemployment rate in the South African economy was 31% in 1995 and increased to 39% in 2005¹³. This is a massive wastage of human resources, which could be mobilized for development. As of 2009, the rate of participation of Africans in the labour force was 52% and for whites it was 68%. Because of the continued structures of domination and exclusion, it will not be wrong to conclude that most Africans do not participate in the labour force because they are the least absorbed in employment. Among Africans of working age (between 15—64 years), only 36% are absorbed into employment whilst on the other hand, 65% of Whites of working age are absorbed into employment¹⁴. Among emerging markets, South Africa has the lowest labour force participation rate.
- **Poverty incidence remains high:** There is no official poverty line for South Africa. Yet, based on measures that are sensitive to household size, one study found that 57% of individuals in South Africa were living below the income poverty line in 2001, and this remained unchanged from 1996¹⁵. But measures that assume individuals need R322 a month to survive show that individual poverty has declined from 52.5% to 48%¹⁶. This decline is said to be driven by an increase in the number of beneficiaries from government’s grant system from 2.5 million in 1999 to 12 million in 2007. This means that 25% of South Africa’s population lives on grants, and it is evidence of the anti-working class character of the post-1994 growth path. The economy reproduces poverty, and the state throws money at this problem, without intervening to change its structure.

13 The Role of the Working Class and Organized Labour in Advancing the National Democratic Revolution, ANC Policy Discussion Document, 2007.

14 Labour Force Survey, October 2009.

15 Fact Sheet No1—Poverty in South Africa, Human Sciences Research Council, 26 July 2004.

16 Towards a 15-Year Review, The Presidency, 2009, p.18. R322 a month is said to be a “high poverty line”, but a crude calculation shows that this cannot cover items such as cooking oil, soap, sugar, tea, clothes, transport etc. if an individual buys 12.5kg of mealie-meal, 4 full chicken portions and 12 loaves of bread.

- **Redistribution of income has not occurred:** Besides the decline in the real incomes of African households between 1995 and 2005, income inequality has increased across the board. In 1995, the Gini coefficient stood at 0.64 but it increased to 0.68 in 2008¹⁷. The share of employees in national income was 56% in 1995 but it had declined to 51% in 2009, i.e. there has been reverse redistribution from the poor to the rich. The top 10% of the rich accounted for 33 times the income earned by the bottom 10% in 2000¹⁸. This gap is likely to have worsened, given the fall in the share of employees in national income and the global economic crisis of 2008¹⁹. Approximately 20% of South Africans earned less than R800 a month in 2002, the situation is worse for Africans. By 2007, approximately 71% of African female-headed households earned less than R800 a month and 59% of these had no income; 58% of African male-headed households earn less than R800 a month and 48% had no income. Even the Minister of Finance has acknowledged that 50% of the population lives on 8% of national income in South Africa²⁰.
- In 2008 the top 20 directors of JSE-listed companies, the overwhelming majority of whom are still white males, earned an average of R59 million per annum each²¹, whilst in 2009 the average earnings of an employee in the South African economy was R34 000²². On average, **each of the top 20 paid directors in JSE-listed companies earned 1728 times the average income of a South African worker**²³. On average, between 2007 and 2008, these directors experienced 124% increase in their earnings, compared to below 10% settlements that ordinary workers tend to settle at. Hefty increases were also seen in **state-owned enterprises**. Directors in state-owned enterprises also experienced the same rate of increase their earnings, thereby contributing to income disparities in the economy. The top 20 directors in SOE's experienced a **59% increase** in their earnings, collectively raking in R132 223 million. This amounts to R6.6 million per director, which is **194 times the average income of the South African worker**.

17 Development Indicators 2009, The Presidency, p.25. These are based on Income Expenditure Surveys.

18 Human Development Report: Fighting Climate Change-Human Solidarity in a Divided World, 2007/08, p.283.

19 In the Budget Speech 2010, the Minister of Finance notes that in South Africa "income inequality is among the highest in the world; and half of our population survives on 8% of national income". Nevertheless, the policy proposals that are contained in the Budget Review 2010, completely fail to address this problem.

20 See Budget Speech 2010.

21 McGregor's Who Owns Whom, 30th Edition, 2010, p.45.

22 Quarterly Labour Force Surveys (2009) and Quarterly Survey on Employment and Earnings (2009 Quarter 1).

23 This is far worse than in the US, where it is estimated that CEO pay was 319 times that of the average worker in 2008. See America's Bailout Barons, S. Anderson et.al, Institute for Policy Studies, 2009, p.2.

Income inequality is still racialised, and has deepened within racial groups. An average **African man earns in the region of R2 400 per month, whilst an average white man earns around R19 000 per month**. The racial income gap is therefore roughly R16 800 among males. Black women are yet to be liberated from the tripple oppreassion. Most **white women earn in the region of R9 600 per month, whereas most African women earn R1 200 per month**. The racial income gap in monthly incomes among women is therefore R8 400. The race gap is therefore overwhelmingly severe among males. The gap in monthly income between African men and White women is R7 200²⁴. In addition, 56% of Whites earn no less than R6 000 per month whereas 81% of Africans earn no more than R6 000 per month. These income disparities are deeply connected to the social relations of production at the factory floor and other places of work, and macro-policies that violate the historical commitment to redistribution²⁵. Inequality has increased the most among the Coloured population, by 9 percentage points, whereas among Africans it has increased by 1 percentage point between 1995 and 2008.

- **The means of production and power remain concentrated in white capitalist hands:** Estimates of black ownership of JSE-listed companies range between 1.6%²⁶ and 4.6%²⁷. The JSE is still dominated by few large firms; 50% of JSE is account for by 6 companies and more than 80% is accounted for by large banks and companies engaged in the core of the minerals-energy-complex²⁸. Crucial sectors in the economy continue to be dominated by a few large conglomerates with cross directorships. These conglomerates are vertically integrated and therefore limit entry into the economy by smaller firms. In addition, there has been a rapid increase in foreign ownership of these conglomerates. This has served to consolidate their domestic power through their global networks. Traditional South African conglomerates, such as Anglo-American have undergone significant restructuring, encouraged by opportunities to globally diversify their operations, thanks to financial liberalization. Nevertheless, significant vertical and horizontal linkages continue to define the South African corporate landscape. For example, the links between mining and finance, construction and mining activities, wholesale and retailers and food processors, remain the main building blocks of the South African corporate structure. In addition, little by way of black ownership and worker control has been achieved over the past 16 years. **Almost all the top 20 paid directors in JSE listed companies are white males.**

24 Community Survey, 2007.

25

26 See A. Ntingi and B. Hlatshwayo: Blacks Own Less Than 2% of JSE, Fin24.com, 28 March 2010.

27 Figure supplied by Duma Gqubule, Kio Advisory.

28 Figures supplied by Duma Gqubule, Kio Advisory.

- **The structure of the economy remains mineral-dependent and is now finance-led:** The economy is still very much reliant on mineral exports for foreign exchange earnings. Although some have found that manufacturing exports have increased, surpassing minerals, such exports remain driven predominantly by the core minerals-energy-complex. **Petrochemicals, Mining and Basic Iron and Steel make up 69% of total exports, and are highly capital and energy intensive.** Many studies have found that the manufacturing sector has rapidly increased exports, attributing this to trade liberalization, which is said to have increased productivity and competitiveness. This is misleading, because the so-called manufacturing that has increased exports, especially basic iron and steel and petro-chemicals, constitute the key pillars of the minerals-energy-complex.

In fact, over a long-haul the structure of exports has failed to break the dominance of core minerals-energy-complex sectors, and **imports continue to be made up of sophisticated manufactured items such as machinery and equipment.** Between 2003 and 2008 manufacturing imports rose by almost 10 percentage points, thereby contributing problems in the external balance. Since 1975 the financial sector outperformed the non-financial sector in terms of growth performance. By 2005, the financial sector was growing almost twice the growth rate of the non-financial sector. A combination of the increase in finance and the capital-intensive MEC core puts further limits to job creation.

- **Control of the economy is still in white hands:** Top management and senior managers continue to be predominantly drawn from the white population. This perpetuates historical networks that determine the probability of promotion and recruitment. In turn, this determines whether one moves to a higher income bracket or not. That 45% of all top management promotions went to white males and 17% went to white females in 2008 is an indictment of the socio-economic quality of our democracy. African males and females account for 13% and 6% of all promotions and recruitment in top management respectively. In short, **62% of all promotions and recruitments were drawn from 12% of the South African population²⁹.** The current democratic dispensation thus reproduces the colonial character of the control of the forces of production in our economy.
- **The health profile of the population has deteriorated:** In 2006, a black female South African expected to live 12 years shorter than a white male, and an average male in Sweden expected to live 30

years more than an average black South African female³⁰. The life expectancy of South Africans was the highest in 1992, at 62 years. Ever since then life expectancy fell to 50 years in 2006³¹. The situation seems to have worsened since 2006. The life expectancy of a white South African now stands at 71 years and that of a black South African stands at 48 years, according to the South African Institute of Race Relations Survey (2009). **Whites therefore expect to live 23 years more than blacks** according to the study.

- **The crisis in education persists and the quality of education is declining:** The poor's children remain trapped in inferior education with wholly inadequate infrastructure. Indeed **"70% of (matriculation) exam passes are accounted for by just 11% of schools**, the former white, coloured, and Asian schools³². What is of major concern is that 12-year olds in South Africa perform three times less than 11-year olds in Russia when it comes to reading and 16-year olds in South Africa perform three times less than 14-year olds in Cyprus when it comes to mathematics³³. Nevertheless, white learners perform in line with the international average in both science and mathematics, which is twice the score of African learners.

Furthermore it is estimated **only 3% of the children who enter the schooling system eventually complete with higher grade mathematics**, 15% of grade 3 learners pass both numeracy and literacy, 70% of our schools do not have libraries and 60% do not have laboratories, 60% of children are pushed out of the schooling system before they reach grade 12. In 1997, approximately 1.4 million learners entered the system in Grade 1. The matriculation pass figure of 334,718 learners in 2009 means that 24% were able to complete matriculation in the minimum of 12 years. Lastly, 55% of educators would leave the profession if they had an opportunity to do so. This is symptomatic of an ineffective and dysfunctional education system³⁴.

- **The housing challenge is still persistent:** There has been progress in the provision of housing; 74% of South African households live in brick structures, flats and townhouses. Nevertheless there remain 15% of households who live in shacks, which amounts to 1.875 million households. Despite the progress that has been made in the provision of decent human settlements, the quality of housing

30 World Development Report (2006): Equity and Development.

31 World Development Indicators, 2009.

32 See G. Barnard (2009): Realizing South Africa's Employment Potential, OECD Working Paper No. 662.

33 It is due to such realities that the ANC noted in 1969: "We have suffered more than just national humiliation. Our people are deprived of their due in the country's wealth; their skills have been suppressed and poverty and starvation has been their life experience. The correction of these centuries-old economic injustices lies at the very core of our national aspirations".

34 COSATU CEC Report, 01—03 March, 2010.

remains a major challenge; 46% of South African households live in dwellings with no more than 3 rooms, 17% of households live in 1-room dwellings. Among Africans 55% live in dwellings with less than 3 rooms and 21% live in 1-room dwellings, whereas at least 50% of White households lives in dwellings with no less than 4 rooms. These disparities in the conditions of living are a direct consequence of the legacy of apartheid, and the accumulation path that underpins it.

- **Progress has been registered in meeting basic needs but affordability remains a problem:** Significant progress has been made in the provision of basic needs in the past 16 years. Households with no access to water infrastructure fell from 36% in 1994 to 4% in 2009. Access to sanitation also dramatically improved over the same period, from 50% to 77%. Access to electricity also improved from 51% to 73%³⁵. Nevertheless, in the light of high unemployment, low-paying and precarious work affordability is a problem. As a result, a number of communities have engaged in service-delivery protests, partly inspired by the low quality of services, partly by lack of services and general government neglect, and partly because of cut-offs, which have been informed by **the notorious cost-recovery policy on basic services**.

This policy has led to 1.3 million households, which account for almost **5 million people**, experiencing **water cut-offs due to non-payment**³⁶. The main drivers of non-payment are affordability, low incomes and unemployment. The over-arching policy framework within which service delivery occurs makes the impact of access to basic amenities not to be enjoyed by working class and poor households. The 15-Year Review captures this clearly when it says: “problems of quality and affordability of services reduce the impact of broader access. For example, women in households which can afford to use electricity only for lighting, and not for heating or cooking, do not reap the full improvement that electrification can bring to their lives”³⁷. We cannot agree more and we have to ask why this is the case.

- 2.8 The persistence of these fault-lines points to a need for a shift in class power relations in order to lay an appropriate political context for thorough-going transformation of South African society. The past 16 years has shown that the ballot box, though necessary, is not a sufficient path to power. No policy shift will automatically emerge unless it is preceded by a shift in class power relations in society. This new growth path document will be one of those documents to emerge from the labour movement,

35 Development Indicators 2009, The Presidency.

36 D. Hemson and K. Owusu-Ampomah: The “Vexed Question”: Interruptions, Cutoffs and Water Services in South Africa, in Pillay U. ed.: South African Social Attitudes—Changing Times, Diverse Voices, HSRC Press, 2006, p.161.

37 Towards a Fifteen Year Review, The Presidency, 2009, p.73.

without any tangible changes in the dimensions we have identified above, unless the working class takes it upon itself to alter the balance of forces.

3. The Myths and Tenacity of Neo-Liberalism

3.1 The package of policies that came to be known as neo-liberalism emerged in the late 1970's, primarily in response to the fall in the global rate of profit. These policies were geared towards resolving this crisis of profitability. In order to improve profitability capital had to: a) cheapen inputs to the production process, b) increase the rate of exploitation of labour, c) export capital to areas that have lower capital-labour ratios, d) disinvest from real capital accumulation by allowing existing capital stock to depreciate, e) channel money capital into financial speculation. All these activities found concrete expression in the neoliberal package of policies. Contained in such policies is a many-sided onslaught on the working class.

3.2 In South Africa, the canon of neo-liberal thinking remains GEAR. Now regarded as merely a short term stabilisation programme by its advocates, GEAR's economic principles and philosophy continue to dominate the practice and articulation of policy, even Post-Polokwane. The principle of GEAR is that growth must occur first, then employment will follow. Once employment increases, the distribution of income will improve. This principle, which is in sharp contrast to the RDP, is reflected in the persistent setting of growth targets as the primary focus, rather than targets for employment and income distribution. In a GEAR framework, economic policy must first promote economic growth, this in turn will generate the demand for labour and therefore increase employment; employment will increase people's incomes and thereby lead to an improvement in the distribution of income. This causal structure has spectacularly failed.

3.3 In order to realize this causal structure, neo-liberalism advocates a package of policies. The basic tenets of neo-liberal policy can be summarized as follows:

- Trade liberalization
- Financial liberalization
- Labour market deregulation
- Limited role of the state
- Fiscal austerity
- Tight monetary policy
- Central bank independence

3.4 **Trade liberalization** is promoted in order to enhance "international competitiveness". This, it is often argued, is a requirement for successfully integrating the South African economy in a rapidly changing global environment. In South Africa, trade liberalization has strengthened the power of multinational corporations; it has weakened the power of the state to direct industrialization and has led to disintegration of productive

structures at local level. The secondary sector has been losing jobs since 1995, thanks partly to trade liberalization. **Between 1995—2008, the secondary sector lost 350 000 jobs.** The policies of the past 16 years have thus failed to promote labour-intensive industrialization, in line with historical positions of the democratic movement.

- 3.5 Financial liberalization is a twin to trade liberalization. Untrammelled global commodity capital flows have to be coupled with the required flows of money capital to facilitate the flow of value on a global scale. But also, the dominance of the money form of capital, which emerged in the 1970's, led to the rise of speculative financial activity as a distinctive area of fictitious capital accumulation as opposed to real capital accumulation. Financial liberalization took at least 3 forms:
- Bank deregulation and interest rate liberalization
 - Exchange rate flexibility
 - Removal of exchange controls
- 3.6 South Africa embraced all these aspects. From the mid-1990's, exchange rate volatility increased after the removal of financial rand exchange controls. On the one hand high interest rates attracted short-term capital flows whilst on the other hand the relaxation of capital controls gave new impetus to capital outflows, which sapped the country of resources that could be invested domestically. **The removal of exchange controls also facilitated the outflow of capital** in the form of delisting of South African conglomerates from JSE to the London Stock Exchange: Gencor, Liberty Life, Anglo-American, De Beers, Old Mutual, SA Breweries, Investec and Didata are all big firms that have accumulated capital by exploiting South African and regional labour through the migrant labour system and apartheid repression. They have now found a way to eschew the responsibility of financing industrial diversification in South Africa.
- 3.7 Because of such large outflow of domestic resources, South Africa's dependence on short-term capital flows to finance its expenditures has increased. High interest rates themselves served to depress domestic saving, which is insufficient to finance investment expenditure. On the other hand, these interest rates are required to keep attracting short term flows to finance expenditures. This way of managing the economy led to **a rapid rise in South Africa's foreign debt from \$25 billion in 1994 to \$78 billion in 2008**, with relatively little increase in real productive investment in the private sector. In just 5 years, the **share of foreign capital inflows in total savings rose from zero in 2001 to 75% by 2008**, a swing from the outflows registered in 2002. This makes our economy vulnerable to capital flow reversals and entrenches the power of global financial capital to hold domestic state policy hostage.
- 3.8 The volatility and level of the exchange rate plays a significant role in deterring investment in the manufacturing sector, especially for those

firms that have no power to shift resources on a global scale, within their own vertically integrated commodity chains. Consequently, the strength of the exchange rate volatility has significantly impacted the valuation of cash-flows of such firms and has thus served to depress investment. At a structural level, the strength of the exchange rate due to short-term capital inflows tends to depress the profitability of mining and thereby leads to a contraction of manufacturing. The exchange rate determines the fortunes of the manufacturing sector mainly through the linkage of the latter to resource-based sectors and directly through exports.

- 3.9 Labour market deregulation complements the liberalization of global commodity and money capital flows. In particular, labour market flexibility increases worker vulnerability by disrupting workers' ability to organize. In addition, labour market flexibility atomizes workers, intensifies competition among them, which drives down the real wage relative to productivity. Even if workers successfully resist these pressures capital, through state policy, draws in immigrant labour that has been beaten to submission by neo-liberalism in order to weaken the bargaining position of the working class. The state itself through outsourcing, the allowance of casual labour, the use of labour brokers and illegal immigrant labour, pursues the interest of the capitalist class in a bid to restore profitability. **Labour market deregulation also makes it impossible to combine employment with significant skills development because of the precarious nature of employment.** As of 2009, it was estimated that 30% of employment in the South African economy is now due to labour brokers. Major players in the wholesale and retail sector for example, which is highly feminized, work with 20% permanent and 80% atypical employees.
- 3.10 **The limited role of the state** took a particularly unique significance in South Africa, since the democratic forces failed to dislodge white capital from the means of production and to reconfigure colonial production relations. We argue below, in Part 1 Section 11, that this laid the basis for the neo-liberal disengagement of the democratic state from productive activity in critical areas. In other words, the state withdrawal from critical activities reflected a class compromise which facilitated the accumulation of capital by black capitalists. The disengagement was itself an engagement by the state to fulfil its role of linking black and white capitalist accumulation, thereby arbitrating the conflict between the two. This perspective of the role of the state has far-reaching implications and calls for a complete re-conceptualization of what may have been considered progressive or regressive in the last 16 years.
- 3.11 **The withdrawal of the state from the provision of basic goods** to a large extent explains the persistence of unemployment, the rise of structural unemployment and the increase in the Lazarus-layers of the working class in South Africa. The privatisation of infrastructure provision and the supply of other basic goods meant that labour-intensity was subordinated to the dictates of profit-making. The tendency of capitalist

accumulation to increase capital intensity is bound up with the quest for higher profits. The construction sector for example, which is critical for infrastructure provision, experienced a massive 105% increase in the technical composition of capital between 1994—2008. This meant that private-sector-driven infrastructure delivery could not deliver as many jobs as anticipated, let alone the requirements of skills development and decent wages. Without a state-driven infrastructure programme, it will be impossible to dent structural unemployment whilst increasing the skills base of the labour force.

- 3.12 GEAR also followed religiously the dictates of **fiscal austerity**—setting a 3% deficit-GDP as the yardstick to measure fiscal prudence. Tight fiscal policy is alleged to lower interest rates, because national savings are released to finance private investment—which should be the engine of economic growth. However, after the introduction of GEAR’s fiscal austerity measures, economic growth collapsed from 5% to 0%. This of course exacerbated job losses, narrowed the tax base and further called for more fiscal restraint. Fiscal policy was not used as a counter-cyclical tool to manage demand in order to attack structural unemployment and as redistributive instrument to meet basic needs.
- 3.13 Fiscal policy became a tool through which public sector-induced demand expansion was to be restrained and private sector induced demand was to be expanded. All this fell in line with limiting the role of the state in the economy and relying more on the private sector to correct historical injustices. The private sector failed to lead demand expansion and instead it siphoned resources out of the economy through capital flight. To this day, fiscal policy in South Africa has maintained a pro-cyclical stance—playing a rearguard role in relation to private sector sentiment. Indeed, **fiscal policy is subjected to monetary policy, which is aimed at gaining elusive credibility in the eyes of finance capital rather than the working class.**
- 3.14 Fiscal austerity without tight monetary policy, especially the drive to have positive real interest rates as a rule—even when these exceed the growth rate of the economy, will be impossible to achieve. **Tight monetary policy** serves as a disciplining device for fiscal authorities because with deficit spending, high interest rates relative to the growth rate produce explosive public debt. In order to constrain fiscal policy to run surpluses and to ensure stable debt-GDP ratios, high real interest rate are required. Such interest rates guarantee a superior return to bond-holders, sustain speculative capital inflows and thus tend to strengthen the currency, which in turn encourages the outflow of capital.
- 3.15 **The basic monetary policy of neo-liberalism is inflation targeting.** Underpinned by monetarist theories, proponents of inflation-targeting believe that the best job for a central bank is to anchor inflation expectations. They argue that interest rate policy cannot have long-run

effects on economic growth and unemployment, but can only keep inflation expectations down and thereby lower long-term interest rates. This, it is said, is enough to stimulate investment and long-term economic growth. But the need to constrain fiscal policy to achieve the inflation target casts serious doubts about these claims.

- 3.16 The emphasis on long-term interest rates as drivers of investment, the link between inflation-targeting and lower inflation expectations, the reliance on bond markets to drive interest rate movements, are all open to question. Empirical evidence in support of inflation-targeting is not as clear-cut as advocates of inflation targeting would have it. In the South African case, inflation-targeting has been extremely regressive—it generates pro-cyclical fiscal policy, is inadequate a framework to support industrial development, and heavily relies on financial market forces, which are dominated by a few large banks, to transmit monetary policy actions to the real sector.
- 3.17 Neoliberal monetary policy also advocates for **positive real interest rates**. This, it is said, will stimulate savings and thus resolve the financing of investment. But the effect of real interest rate on savings is also open to question. Indeed, savings are determined more by income levels and, in an open economy, by the extent of capital outflow. Thus, real interest rates can be kept as high as possible, but the outflow of capital can depress savings necessary to support domestic investment. In most instances, especially where industrial development is involved negative real interest rates coupled with other financial policy instruments, may be a necessary condition for industrial expansion. But such financial repression goes counter to the interests of financial capital.
- 3.18 Because the central bank plays an important role in financial markets, **neo-liberalism calls for central bank independence** from government interference³⁸. In practice, central bank independence insulates central bank policy from democratic processes. It thus robs the population of an important institution through which it can allocate resources to advance its democratic aspirations. Proponents of central bank independence argue that independence removes the printing press from the politicians, who are prone to abuse it thereby generating hyper-inflation and “political business cycles”. Empirical evidence about the link between central bank independence and inflation is not as clear-cut as these advocates suggest.

38 Central bank independence takes two forms: **goal independence**, when the central bank determines the goals of monetary policy. This form of independence is hardly practiced. The SARB is not goal independent, its policy framework comes from the National Treasury, b) **operational or instrument independence**, which the SARB enjoys, is when the central bank is allowed discretion to use whatever instrument or strategy it deems most appropriate in order to achieve the goals that are set by government. We are here concerned about instrument independence.

3.19 **Firstly** in practice, as we have already mentioned, even if the population votes for an expansionary fiscal stance, the central bank can independently sabotage government by setting real interest rates to be above the growth rate of the economy, thereby making public debt explode faster than would otherwise be the case. **Secondly**, the removal of the printing press as one of the sources to finance developmental government expenditure constrains the public sector to raise funds only by raising public debt, taxes and tariffs of basic goods and services such as water, electricity and transport, which may not always be optimal. **Thirdly**, advocates of central bank independence naively assume that class forces cannot impinge on central bank practice. By removing the central bank from democratic ownership and control, they place it in a position that makes it easy for conglomerate elites to co-ordinate their private interests³⁹.

3.20 **The policies of the past 16 years** have failed to challenge the power of conglomerates, and have in fact strengthened their stranglehold through financial and trade liberalization. They **have failed to diversify the economy** outside of the heavily concentrated and capital-intensive minerals-energy-complex core and instead, have added financial capital accumulation as another important dimension in this complex. This has continued to stifle the growth of downstream industries in at least three ways:

- **Firstly**, by diverting crucial inputs towards the Minerals-Energy-Complex core, upstream industries continue to lock the economy in mineral export dependence and in a capital intensive growth path. The lack of access to affordable inputs, combined with the strength of the exchange rate, prices downstream industries out of the global market.
- **Secondly**, trade liberalization has led to the decimation of some sectors, e.g. clothing and textiles, white goods and electronics, and has continued to make it difficult for sophisticated domestic manufacturing sectors such as machinery and equipment and transport equipment, to develop.
- **Thirdly**, low wages, high unemployment and deteriorating income distribution constrain domestic demand for downstream industries. This in turn perpetuates the dominance of capital intensive sectors in production. Growth over the past 10 years was driven by the MEC core, and non-production sectors such as wholesale and retail and finance, real estate and business services. The wholesale and retail sector relies heavily on atypical employment and has significant import content, whilst the financial sector is dominated by a few large banks.

³⁹ For example the Federal Reserve Board could not account for trillions of dollars printed during the economic crisis that started in 2007. In another instance, when they want to take funds abroad, conglomerates can engineer a policy of strengthening the exchange rate, with the help of the central bank, thereby draining the country of foreign exchange reserves.

- 3.21 If neo-liberalism has been so regressive, why has it been so tenacious? The answer to this question has already been given by the COSATU CEC in 2001: It is because of the **balance of power**. This balance of power finds expression in the economists' training in universities, short courses and training that politicians are offered by the IMF, World Bank and private banks. Having imbibed these courses, the appetite for alternative views about the economy that are in line with the political philosophy of the liberation movement is completely suppressed. But more importantly, the underlying class interests that have coalesced exert pressure on the state to solidify class compromise in state policy, so that the state acts to co-ordinate national activity in a predictable manner, in line with the interests contained in that class compromise.

4. The Six Pillars of the New Growth Path

- 4.1 The basic point of departure of this growth path document is that our society suffers from the intersection of apartheid distortions and socio-economic exclusion of the vast majority from economic activity. This fundamental problem has been exacerbated by the neoliberal experiment of the past 16 years, which promoted the unrestrained operation of the capitalist system. South Africa's neo-liberal policies of the past 16 years have not only deepened the exploitative tendencies of capitalism. They have also broadened the scope of their operation in the Southern African region. The expansion of South African multinationals into the African region carries with it the persistent exploitative tendencies that are characteristic of the South African economy.
- 4.2 Decent work means that the character of the growth path should be clearly biased towards the working class. It should be wage-led and redistributive—economic growth should raise wages in real terms and must improve income distribution. This means that economic growth should deliver lower rates of exploitation of labour, and increase access by the working class to basic goods and services, including sufficient time for working class heads of households to take care of their families and to play an active role in building social cohesion.
- 4.3 **A redistributive growth path that creates decent work** is better positioned to be poverty-reducing and therefore, it is better positioned to be pro-poor. The patterns of income distribution that have emerged in the past 16 years, the levels of unemployment and the associated poverty rate show that economic growth promotes poverty. Redistribution must necessarily encompass the question of **economic power** because, as we have seen, this economy pays 1728 times the average wage of a worker to an individual who happens to be a director.
- 4.4 Figure 1 provides a schematic view of how the pillars of the new growth path hang together. The starting point in the process of creating decent work is redistribution of incomes and power. Redistribution must inform:

- **Fiscal Policy:** The tax system, the composition of expenditure and the financing of the budget must be informed by the need to redistribute income and wealth. Redistributive fiscal policy will mobilize the resources to deliver social infrastructure (education facilities, health facilities, housing, water and sanitation, energy). Such a fiscal policy will also deliver economic infrastructure to support industrial development, and will also deliver comprehensive social security. In delivering these basic goods and services, the state will create decent work.
- **Monetary Policy:** Interest rates and credit allocation must promote a redistributive agenda. Through redistributing the social surplus from financial speculators and rentiers to industrialists through concessionary finance, quantitative controls on the financial sector and management of the exchange rate, inserting tax-frictions on financial transactions, monetary policy will support industrial development. A redistributive monetary policy will also support housing and developmental infrastructure finance, through differential interest rates. Monetary policy must be co-ordinated with fiscal policy and must be geared towards support for an expansionary fiscal stance.
- **Industrial Development:** In procuring inputs into infrastructure development, allocation of credit, technology support, and skills development and training, the state will support local industries. Local industries in turn, will be required to also procure from other local suppliers as a means to build a cohesive industrial base. The expansion of industry will create decent work, increase value-added, and thereby increase the social surplus required to maintain the sustainability of the expansionary fiscal stance through a wider and deeper tax base. Monetary and fiscal policy instruments will have to be deployed to ensure that the social surplus generated does not leak out of the economy in the form of capital outflows and imports.
- **Collective and public forms of ownership:** Our society suffers from a history of dispossession. The past 16 years sought to return the wealth to a few Blacks, on behalf of the people as a whole. This has failed to resolve the underlying problems of apartheid and capitalism. The new growth path will progressively support the emergence and expansion of collective forms of ownership. Some strategic inputs to industrial development e.g. the mines, steel production and petro-chemicals should be in the hands of the state in order to build state power to direct industrialisation. Co-operatives should also be supported and be closely linked to state initiatives in order to build a progressive alliance between collective forms of ownership in the economy. Such an initiative

will lead to redistribution of power in the economy and break the stranglehold of a few conglomerates.

- **The development of the Southern African region:** Whilst South Africa faces major challenges; our country cannot tackle its challenges fully unless it contributes towards regional development. South African capitalism developed on the basis of migrant labour drawn from the regional economy. By contributing to the development of social and economic infrastructure in the region, South Africa will be fulfilling its internationalist obligations and will foster closer economic and cultural integration of the region. South Africa's industrial development can also benefit immensely by leveraging the strengths of the regional economy, especially in relation to food security, water, energy and market access.

Poverty reduction cannot be achieved through purely inward-looking policies. A sustainable regional approach, which is based on building regional economic capabilities, technology transfers and economic development policy coherence, is required to systematically deal with poverty. Indeed, the major driver of migration in the sub-Continent is the levels of poverty and economic under-development that exist in our neighbouring countries.

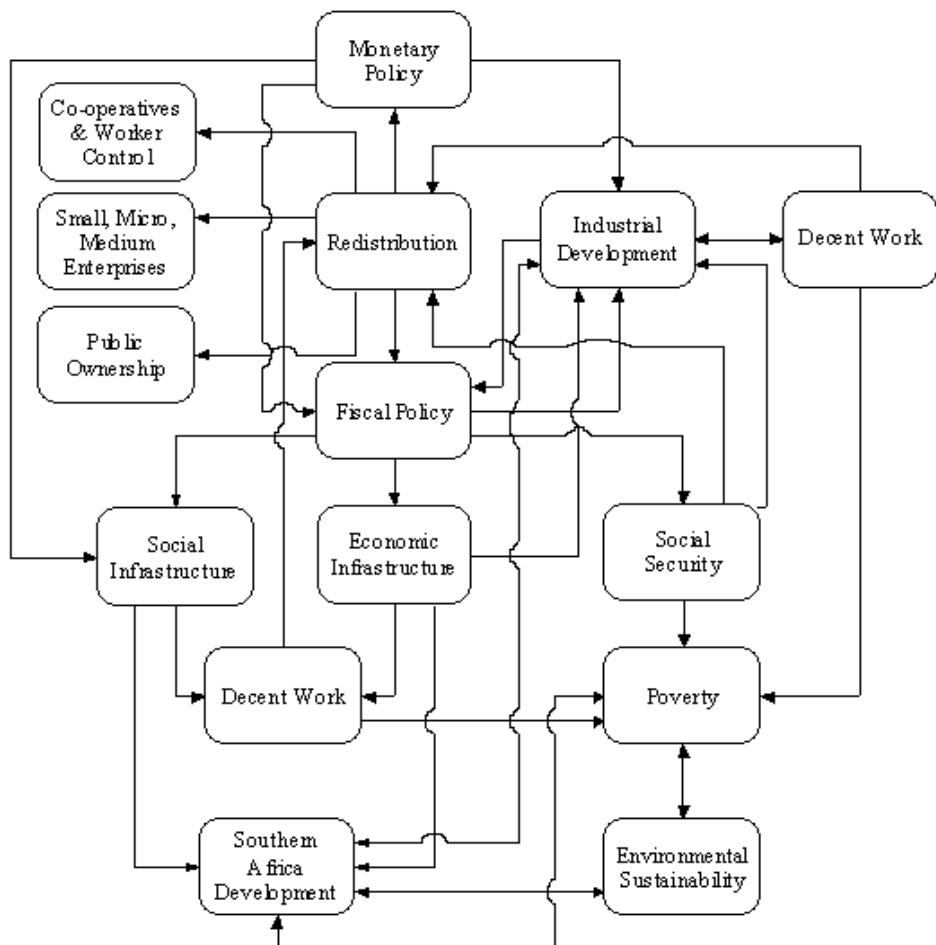
In addition there needs to be political will to industrialize the region, and to link national industrial initiatives into a coherent regional industrialization strategy. Hence our industrialization strategy must balance the national imperative to address domestic basic needs and the needs of the people in the region. The same approach should inform each of the national initiatives in the region.

- **Environmental sustainability⁴⁰:** Economic growth and development must support sustainable environments. Industrial and social processes must minimize the disruption of natural processes; limit environmental degradation, adverse changes in bio-diversity, soil erosion and desertification, the emission of greenhouse gases, especially carbon dioxide, and pollution of water streams and ground water. Patterns of consumption must also be aligned towards products that optimize environmental regeneration.

40 Here, we limit our attention to the natural environment. It should however be noted that the broader social environment, e.g. the environment that protects women's rights, human rights, workers' rights, has a significant impact on poverty alleviation and economic development.

In this new growth path, we draw a link between environmental sustainability and poverty eradication in the Southern African region. Most of the economies in the region are still agriculture based. They are therefore vulnerable to water scarcity, environmental degradation and changes in the climate. This in turn directly affects the livelihoods of the vast majority, who continue to rely on subsistence agriculture. Whilst recognising the need to mechanize agriculture, put it on a commercial basis and to raise productivity levels, it is clear that an unsustainable natural environment will pose an absolute barrier to poverty alleviation. This is exacerbated by the fact that the vast majority of rural people have no access to technology, skills, credit and markets.

Figure 1: How the Pillars of the New Growth Path Hang Together



- 4.5 Clearly, the centrality of redistribution in our growth strategy requires an active state to drive economic development. Our economy continues to be dominated by a few conglomerates, which are increasingly going global—exhibiting strong trends towards multinational ownership and the continued entry of foreign ownership in conglomerates that are of South African origin. This places our growth path at loggerheads with global forces and will thus have to rely on the power of the working class to mobilize all those whose interests coincide with building the long-term productive potential of our country.
- 4.6 Embedded in the analytical framework that is outlined above is a shift in policy. However such a shift should be informed and be rooted in a clear articulation of class interests in which the working class has to play a pivotal role. This framework calls for redistribution of the means of production, which is the economic basis of state power. It calls for a complementary redistribution of the social surplus for use to finance the development process, and to deepen and widen working class incomes. Market forces are not going to achieve this, but a **purposive state** that solidifies working class hegemony in state policy is required to achieve this.
- 4.7 In this regard, and given the class implications that this growth strategy entails, the working class cannot rely solely on the ballot to deliver this strategy. The success of this growth strategy relies heavily in the reconfiguration of power relations within the democratic movement and society in general. This is a necessary condition for shifts in state policy as outlined here to occur. The working class is thus required to consistently fight for this framework to find expression in state policy and practice.

5. The Character and Role of the State in the New Growth Path

- 5.1 At the advent of democracy in South Africa, **neo-liberal globalization** was at its height and **provided an overarching context for public-policy making** and socioeconomic development in all but a few countries in the world. Hence, the defined role and character of the state that emerged from the ruins of the apartheid state were by and large shaped by this hegemonic neo-liberal paradigm. Neo-liberalism provided the ideological thrust behind the restructuring of the public service and the public sector as a whole.
- 5.2 **The official refrain was that the role of the state was not to create jobs** and that the state should not intervene in the economy because this would crowd out private sector investment, distort incentives and lead to inefficient allocation of resources. Instead, the refrain went, the role of the state is to create a conducive political, legal and economic climate for private sector investment, and therefore economic growth.

- 5.3 Attempts were made to **render the emerging democratic state into a “regulatory state”** through the “right-sizing” of the public service, to “down-size” the public sector through privatization and deregulation. Generally a figment was presented which assumed that the state is above class conflict, sets parameters and arbitrates class conflict, steers social contradictions in the direction of national interest. Obviously this conception and practice engendered a highly conflictual relationship between the state and the working class. Notwithstanding episodes of cooperation, for the most part, the first three terms of the democratic government were defined by an overarching conflictual relationship over the class character of the policies that were pursued by the state.
- 5.4 **The state is a strategic centre of power** and is not class, gender and racially neutral. Each class, even within gender and racial categories, constantly seeks state power because invested in such power is monopoly over the police, army and intelligence structures which can be used for repressive purposes, power to levy a tribute in the form of taxation, print money and to engage in borrowing on behalf of the country. State power also guarantees that the class that wields it has access to national productive resources and to determine their use. It is within this context that the role of the state should be framed.
- 5.5 The working class has to be clear about the possibilities that exist, if it wields state power, to advance social development in its own interest. Furthermore, the working class has to be clear about the limitations of advancing a social development agenda in the context where it does not wield state power. The institutional mechanisms through which the working class seeks to shift state policy must be assessed and a review of the energies that are invested in various platforms where policy is discussed must be undertaken⁴¹. A question about the role of these engagements in de-mobilizing class struggle rather than advancing it has to be discussed⁴².
- 5.6 From COSATU’s perspective, **the discussion about the developmental state**; its structure, capacities and role **must be firmly grounded in class analysis**. State policy expresses intra-class and inter-class dynamics, it serves as a co-ordinating mechanism to enact the interests of underlying class forces, depending on which class wields power. The class, race and gender character of the state normally flows from the pattern of ownership of the means of production.

41 The First Term Report of the COSATU Parliamentary Office titled “Accelerating Transformation”, was published in 2000. Perhaps, an updated report may be necessary to consolidate the experience of the working class between 2001—2009, and to systematically reflect on strategy and tactics of the working class.

42 An example of how the working class found itself mired in a web of institutional engagements that produced protracted discussions without policy change is the engagement around GEAR. See COSATU Central Executive Committee Political Discussion Paper, July 2001.

- 5.7 In the South African case, the state is rooted in the matrix of these social relations. In the past 16 years, attempts to resolve the racial pattern of ownership of the means of production have been severely limited, and have been accompanied by escalation of class exploitation and domination. Efforts to resolve the gender question have only served to deepen the race and class dimensions—because on the economic front, among women whites were the major beneficiaries of Affirmative Action policies in the past 16 years and (mainly black) working class women faced casualization, unemployment and extreme poverty.
- 5.8 Therefore a key question that will have to be answered as a point of departure in discussions about the developmental state is: **in whose class interest is the developmental state constructed?** Building state capacity, restructuring its organs and redefining its role in the economy in particular can either serve to deepen and escalate the exploitation, oppression and domination of the working class or it can reduce and ultimately eliminate such phenomena. As is argued below, the retreat of the state from the provision of basic goods is one way in which the state was impelled to intervene in order to express a resolution of the conflict between the black and white capitalists and to create a link between the two fractions of capital.
- 5.9 A materialist analysis of the state demands that the economic beneficiaries over the past 16 years be specified. Those who benefited are the ones who wield state power and thus are responsible for the socio-economic trends that have emerged over the same period. The analysis of trends in income distribution, unemployment, poverty, health, education, housing and access to basic utilities over the past 16 years points unambiguously to the capitalist character of the state. The analysis also shows that this state, whilst it represents an advance over the apartheid capitalist one in the sense that it has reduced the brutality of exploitation, has nevertheless facilitated the deepening and escalation of exploitation under more humane conditions.
- 5.10 **The role and character** of the developmental state that is envisaged, must at least be informed by the following⁴³:
- ★ **Firstly**, its outlook must be:
 - Working class biased
 - Based on participatory democracy
 - Anti-imperialist
 - ★ **Secondly**, the state must decisively intervene in the economy to redistribute resources in order to address:

- Divisions resulting from our Apartheid past
- Unemployment, inequality and poverty
- Rural-urban development divide

★ **Thirdly**, the state must take direct responsibility and must rely less on the private sector and market forces through:

- Nationalization of strategic sectors and ownership of productive resources
- Promotion of co-operative and other worker-centred forms of ownership
- Support downstream industries and lead industrial development
- Promotion of regional integration based on an anti-imperialist outlook
- Structured relations with extra-state organs of mass power

★ **Fourthly**, it must strive to achieve universal access to:

- Decent jobs
- Quality education
- Quality healthcare
- Comprehensive social security
- Decent housing
- Access to water, energy and sanitation

5.11 As noted by COSATU in 2001, the balance of power is the most important factor that will determine whether the state fulfils these obligations and meets these requirements. The failure of the democratic forces to dislocate white capital from power and the reconfiguration of class forces inside the movement itself has meant that the state had to give way in critical areas of the economy, to allow the emergent black capitalist class to accumulate capital⁴⁴. This has taken the form of the state moving away from directly delivering basic goods such as housing, social infrastructure such as clinics, schools, hospitals and economic infrastructure such as roads. The state then progressively became an **administrator of tenders**, the collector of taxes, a national fund-raiser through public borrowing, and the disbursing of funds. The actual delivery of public goods increasingly rested with the private sector.

5.12 It is in this connection that the significance of the “bureaucratic bourgeoisie that uses its access to the state to expand the class of black capitalists” has to be understood. Because the black capitalists do not have the means

44 This position is articulated in various resolutions of COSATU: “Congress notes the promotion of privatization of state assets as a way to promote black enterprise...and resolves to strengthen the role of the state to resolve the historic marginalization of the majority and to reverse the privatization of state assets, which is being justified in the name of black economic empowerment”, COSATU 8th National Congress or “Congress notes that the current BEE policies of government seek to replace white monopoly capital with a non-racial monopoly capital and that many attacks on the working class in last 12 years has been a result of active promotion of BEE by either the private sector or the state...”, COSATU 9th Congress.

of production on the same scale and quality as white capitalists, they are objectively forced to collude with the white capitalist establishment, in order to accumulate capital and to deliver on the tenders. In some instances, even the quality of what is delivered leaves much to be desired, if delivery occurs at all⁴⁵. This collusion essentially leaves the historical architecture of apartheid capitalism intact, with cosmetic changes to fulfil political correctness. But this political correctness is on the basis of an anti-working class, neo-liberal, ideology that calls for a limited role of the state in the economy and the expansion of its role as a tender supplier. Thus, a **“tender state” creates an important link between black and white capitalist accumulations**. Calling for the state to directly deliver basic goods threatens to fracture this intra-capitalist class linkage.

5.13 In the initial phase of the growth path, the emphasis of the state will be to **deliver social and economic infrastructure, and thereby directly create jobs** in the process of delivering basic goods and services to the people. But the link between infrastructure expansion and job creation is complicated by the intervention of the private sector through tenders. The reliance on the private sector to deliver basic goods, with the state only playing the role of supervision and tender supply, blunts the employment potential of the infrastructure expansion programme. The technologies that are used by the private sector are based on profit-making and tend to be capital intensive, whereas if the state directly delivers basic goods, it can determine employment intensity in line with its projected employment impact, by choosing labour intensive methods of production.

5.14 Given the proper balance of forces and the extent of the problems that have been spawned by capitalism and apartheid, the kind of state that must drive the development process must have **various inter-related capacities**. In line with the literature on the developmental state, **we propose that the state builds the following 4 key capacities:**

★ **Extractive Capacity:** The state must have capacity to extract social surplus, mobilize national resources, in order to fund social and economic development. Extractive capacity includes, but is not limited to:

- The mobilization of national saving for development
- Quantitative regulation of credit allocation by the financial sector
- A progressive tax and levy system

45 It is estimated by the Minister of Human Settlements that 50 000 houses have to be rebuilt because of poor workmanship. This amounts to R1billion. At a wage of R3 000, this money could have created 5 555 public sector jobs that would last for a period of 5 years, lifting an estimated 20 000 South African out of poverty.

★ **Redistributive Capacity:** In the extraction and use of national resources, the state must be redistributive, to deal systematically with the history of dispossession and the failures of neo-liberalism. This can be achieved through:

- Improved and expanded **provision and access to basic goods** and services to the working class and poor communities
- Expanded and comprehensive **social security**
- **Employment guarantee** for all willing and able to work at a statutory minimum wage, to expand public sector roll-out and maintenance of basic goods and services
- **Low interest rate** policy that redistributes social surplus from financial rentiers and speculators, to industrialists in targeted sectors through Development Finance Institutions and the State Bank
- Promote **collective forms of ownership**, small and medium enterprises through credit access, access to capital equipment and technology, markets and skills
- **Tax on financial transactions**, to re-orient investment towards the productive sector

★ **Transformative Capacity:** Transformative capacity relates to the capacity of the state to change the industrial structure and lead the process of social transformation. This includes:

- **Production and allocation of strategic inputs** to targeted sectors at affordable prices, e.g. water, energy, steel, chemicals, fertilizers, capital equipment, etc.
- **Maximize direct and indirect labour-intensity and localization** of public expenditure through setting clear targets for all state sector entities (SOE's, Agencies and Departments)
- Lead and support **research and development** of new technologies and products in order to meet basic needs and to improve the global competitiveness of the South African and the regional economy

- Develop a clear **national innovation system**—linking state entities, education and training institutions, research institutions, civil society and the private sector.
 - Set up **aggressive targets and punitive measures** to promote social transformation—dealing with divisions and unequal access to resources and power as a result of continued apartheid networks in the economy and society
 - **Remove the profit motive from the provision of basic goods and services**, increase labour-intensity of state expenditure and support BEE in the productive private sector
- ★ **Administrative Capacity:** The state must have a highly skilled technical cadre to drive the state apparatus and the economy as a whole. This will improve the efficiency, quality and pace of delivery of basic goods and services such as infrastructure, administration of justice, provision of social security, social amenities, etc. Administrative capacity can be improved by:
- Clear **career-pathing** in the state apparatus
 - Aggressive **human resource development** of public servants across all spheres of government, SOE's and Agencies
 - Closing the **pay-gap** between the private and public sectors through, among others, the tax system and putting controls on private sector pay
 - Improving the **education and training** system, setting clear targets and punitive measures to higher education and other post-secondary education institutions
 - Increasing the role of strategic state institutions, especially **SOE's and Agencies**, in improving access and shaping the content of education and training
 - Filling and creating **new strategic posts** in the state apparatus, informed by the new role of the state
 - Efficient and effective **utilization of existing capacities**, by constantly assessing areas of under-allocation and over-allocation of public resources, in

line with changes in areas of emphasis in the state developmental programme

- Set up punitive measures against **corruption** in both private and public sectors

5.15 The key levers of the developmental state will be the departments, state-owned enterprises, agencies and financial institutions.

- **Departments** must:

- Provide political oversight over agencies and entities under them
- Submit reports, detailing their performance in line with developmental targets⁴⁶
- Use budgets to support targeted sectors as identified in the Industrial Policy Action Plan 2
- Co-ordinate activities of State-Owned Enterprises and Agencies and direct them towards employment creation, delivery of basic goods and services, in line with their developmental mandates and targets

- **State-Owned Enterprises and Agencies** must:

- Increase the labour-intensity of their budget expenditure and contribute towards overall labour-intensity of the economy
- Provide decent work, eliminate outsourcing, the use of labour brokers and precarious work
- Procure inputs from local industries, in support of IPAP 2
- If they procure from foreign firms, they must put in a provision for skills and technology transfer to local firms
- Play a leading role in revitalization of rural economies through economic and social infrastructure provision
- Lead in skills development through bursary schemes,

⁴⁶ The current contracts between the President and Ministers are not useful because they are not linked to clear developmental indicators, e.g. optimizing labour intensity of budgets, local procurement, affirmative action, BEE, co-operative support, skills development, etc. These contracts are formulated without a growth and development strategy and are thus not going to be effective.

partnerships with relevant institutions, targeting those located in rural areas and former Bantustans

- Support research and development of new technologies to promote cost-effective ways of producing and to benefit downstream industries
- Eliminate the profit motive from the delivery of infrastructure, by directly delivering infrastructure, basic goods and services to the economy and communities—this means building internal skills
- Produce strategic inputs for industries: water, electricity, steel and other metals, cement and chemicals

5.16 **The state must not shy away from creating new enterprises** that are geared towards the production of basic goods such as transport. For example, the national innovation system that underpins the new growth path should exploit and consolidate all existing technologies that have been developed domestically, with a view to reduce the reliance of the country on foreign technologies. For example, linking automotive manufacturing and advances in South Africa's military technologies may open new opportunities for the country to manufacture its own vehicles cheaply—thereby lowering the costs of public transport. The state can also create its own construction, cement, automotive, capital equipment and financial enterprises.

5.17 That a state is developmental cannot be legislated, it depends on what the state does and how it does it. In our case, **a state will be developmental if it develops its capacities to address the terrible legacy of apartheid and capitalism.** In this connection what has emerged over the past 16 years has been a developmental state for black and white capitalist accumulation. However, because the latter were dominated by traditional conglomerates and short-termist financial interests, which have no incentive to promote industrial diversification beyond what we historically inherited from apartheid, the state lost its long-term planning perspective. We now sit with a complex of crises ranging from energy, water, unemployment, education, health and poverty.

PART II: ECONOMIC POLICY

6. Industrial Policy

6.1 Industrial Policy must aim to achieve the following set of **goals**⁴⁷:

- The creation of **decent work** as the first priority, in order to widen and deepen the domestic income base
- Meeting the country's **basic needs** by lowering the costs of production of basic goods and services and increasing domestic capacity to produce these
- Stabilizing the **balance of payments** by narrowing the adverse price, quality and technological gap between domestically produced products and those manufactured on world markets
- Expand production for the **domestic market and the Southern African region**

6.2 The **principles** that should inform industrial policy should be:

- Linking **industrial development and skills development and employment creation**
- Improving **labour standards**
- Anticipating shifts in sector performance in order to **minimize structural unemployment**⁴⁸
- Reducing the **carbon-intensity** of production
- Promoting **environmentally sustainable** technologies

6.3 In order to achieve the above goals, industrial policy must:

- Foster **backward and forward linkages** among sectors
- Make **critical inputs** such as water, energy, infrastructure, chemicals, land available to targeted sectors at affordable prices
- Support **downstream industries** as a means of improving value-addition

47 See Economic Policy in COSATU: Report of the Economic Policy Conference, 27—29 March 1992, RDP Section 4.4, and the Report from the September Commission, 1997, p.56.

48 For example, the emergence of cellular phones had a huge impact on the landline segment of Telkom. Anticipating and acting on such developments might have avoided the 30 000 jobs lost between 2000—2004.

- Link targeted sectors to a well-defined **national innovation system** in order to develop economically and socially useful technologies and products
- Align and put strict controls and accounting mechanisms on government **procurement processes** to promote local industry to increase multiplier effects, and create employment

6.4 Sectors that must be targeted for state support must be identified based on one or a combination of the following criteria: they must be labour intensive, contribute towards balance of payments stability, must produce strategic inputs for other sectors and must produce basic goods for the country (such as infrastructure, water, energy, food, clothing, plastics, paper and wood products, housing and medicines). In this growth path, we have identified the following **8 indicators** for practical policy guidance in selecting sectors to be targeted:

1. **Labour Intensity:** This must be above the existing average of the economy. This is an important technical requirement for a labour-absorbing growth path.
2. **Skill Intensity:** The growth path must, in its initial stages, be low skill intensive in order to combat the scourge of structural unemployment. Through “learning-by-doing” and integration of education and training to economic and social activity, the growth path should be underpinned by an appropriately balanced skills base.
3. **Value-Addition:** This is important for the production of social surplus, which is the basis of long-run economic growth. Value-addition also ensures, provided there is an appropriate stance of state policy, and given the balance of forces, that scope is opened for higher, but more equitable incomes.
4. **Redistribution:** Industrial development, which is at the heart of this new growth path, must be pro-poor and not reproduce income inequality and plight of the working poor.
5. **Export Orientation:** Sectors that exhibit high export-orientation stand to benefit the economy through foreign exchange earnings and thus ease balance of payments problems.
6. **Import Orientation and Penetration:** Sectors that are import-intensive in relation to their inputs need to be analysed in order to identify sectors that should be supported locally to build capacity to supply such inputs. Sectors that suffer from high import-penetration, and yet have a major role to play in meeting the goals of the growth path must be supported through strategic trade policy, technological capacity building, infrastructure and access to critical inputs.

7. **Water Intensity:** In order to be environmentally and socially sustainable, this growth path must lead to a decline in water intensity of production over time. This will significantly add to sustainable development, and release water to be used for social needs and food production in agriculture. We therefore support the IPAP 2 when it says: “Although energy efficiency (or lack thereof) has received the bulk of attention, South Africa is also a water-scarce country. This will receive increasing attention in the IPAP including strengthening standards related to water efficiency in building and industrial applications”⁴⁹.
8. **Energy Intensity:** The energy intensity and carbon-based energy sources of the growth path must decline over time in order to contribute towards a cleaner environment and mitigate the effects of climate change. Research and development efforts and resources should be set aside to explore the various ways in which carbon and non-renewable energy intensity of production can be reduced⁵⁰.

6.5 In this regard, COSATU supports the methodology that has been adopted by the IPAP 2, which identifies for each sector its level of employment, value-added and the trade balance. However IPAP 2 reports levels and shares of employment of each sector in manufacturing. It would be useful to also look at the extent to which each of the sectors adds value, is labour-intensive, suffers import penetration, has potential to export, etc, and benchmark the indicators highlighted above with the average of the economy compared to what may be regarded as the minimum core of the Minerals-Energy-Complex⁵¹, which is highly capital intensive, import dependent etc.

6.6 **The leading role of the manufacturing sector** in this new growth path cannot be overstated. Economies that have grown the fastest have been those with dynamic manufacturing sectors. It is estimated that, on average, a 1 percentage point gain in the growth rate of manufacturing value added leads to a 0.45 percentage point gain in the growth rate of the gross domestic product⁵². In the case of South Africa, a 1 percentage point gain in the growth rate of manufacturing value added leads to a 0.49 percentage point gain in overall economic growth. The leading role of the manufacturing sector has also been recognized in the broader democratic movement⁵³.

49 Industrial Policy Action Plan, The Department of Trade and Industry, 2010, p.43.

50 See the Industrial Policy Action Plan, The Department of Trade and Industry, 2010, p.44, for proposed detailed initiatives in this regard.

51 This minimum core of the Minerals-Energy-Complex is specified in B. Fine and Z. Rustomjee, *The Political Economy of South Africa—From Minerals-Energy-Complex to Industrialization*, Westview Press, Boulder, 1996, p.79.

52 UNIDO Industrial Development Report (2009), p. 4.

53 See the ANC Policy Document: *Role of the Working Class and Organized Labour in Advancing the National Democratic Revolution*, 2007.

6.7 **A few sectors have been found to drive growth** in successful economies globally. Sectors that underpin these economies are precisely those in which South Africa is weakest. There are serious weaknesses in the manufacture of metals, machinery and transport equipment, yet it is these sectors that are major drivers of economic growth in leading economies⁵⁴. Correctly, these sectors have already been given priority in the first cluster of IPAP 2⁵⁵. Some of the sectors that have been identified, such as paper and paper products, have been experiencing job-loss growth over the past 10 years and do not exhibit high export-intensity. The key issue in the new growth path is to identify, and then develop linkages between, sectors as the basis to build a coherent industrial base.

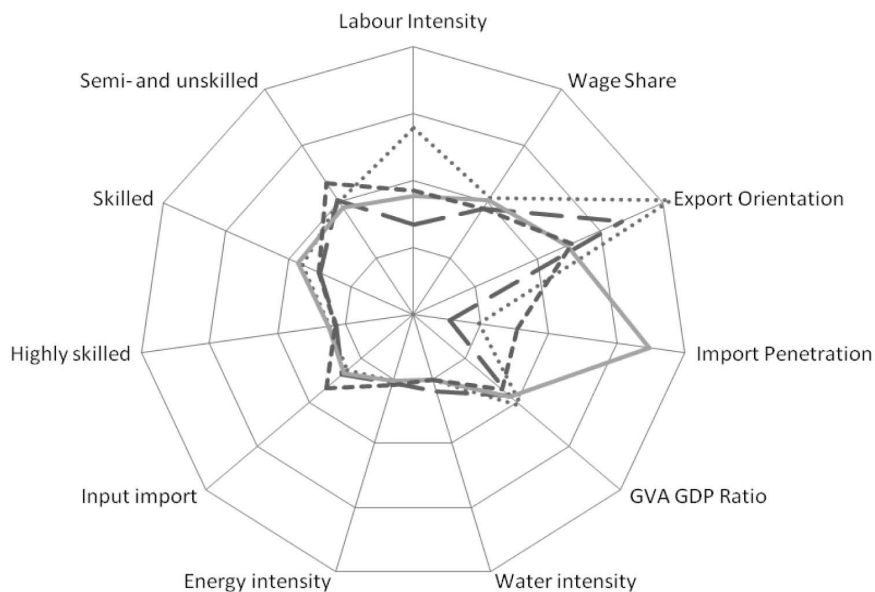
6.8 Our calculations of the 8 indicators allow us to rank sectors and choose those that perform above the national average. For example labour-intensity, which we measure by the ratio of employment and output growth rates, averaged over the past 10 years, is used to identify labour-intensive sectors. Figure 2 illustrates the results of this exercise⁵⁶:

54 UNIDO Industrial Development Report (2009) notes: "Over the entire 25 year period, six sectors stand out consistently as highly sophisticated sectors—paper and paper products, fabricated metals, machinery, electrical equipment, transport and other equipment. Richer countries are intensive exporters of these products", p.45.

55 See the Industrial Policy Action Plan 2, Department of Trade and Industry, 2010, p.36.

56 Labour intensity, export orientation, import penetration and the degree of value-addition are measured by the ratio of the relevant variable and the output growth rate of the sector. Water intensity, energy intensity and skills composition are taken from input-output tables. The limitation of the latter measures is that they are in money-terms. Strategic sectors are more or less identified in line with COSATU's Economic Policy Conference Report (1992): Energy, Transport, Communications, Forestry, Government Services, Water, Steel, Petroleum and Chemicals. The minimum core MEC sectors are identified in line with Fine and Rustonjee (1996, p.79).

Figure 2: Target Industries and the 8 Indicators of Performance



- 6.9 Labour intensive sectors tend to outperform all other sectors:** average labour-intensity of these sectors is 0.89—which implies that a 1 percentage point increase in the growth rate of these sectors leads to a 0.89 percentage point increase in jobs. The economy has an average 0.39 labour-intensity. Labour-intensive sectors are also export-oriented, i.e. they have potential to alleviate the balance-of-payments constraint.
- 6.10 Some sectors may be capital-intensive, yet they may be strategic for economic development in the sense that they supply basic inputs. Others may not be labour intensive, but they may play an important role in limiting the amount of imports, if they are supported, while others may be more directly linked to meeting basic needs—such as water, energy, housing, infrastructure, paper, plastics and wood products. Table 1 lists sectors that we have identified, in line with 6 of the 8 indicators.

Table 1: Industry Characteristics

Labour-intensive	Job-loss Growth	High Value-Add
Wearing apparel	Basic non-ferrous metals*	Construction (contractors)*
Other mining*	Metal products excluding machinery	Other producers
Coal mining*	Furniture and other manufacturing	General government services
Beverages	Agriculture, forestry and fishing*	Community, social and personal services
Textiles	Motor vehicles, parts and accessories	Gold and uranium ore mining
Other producers	Wood and wood products	Wholesale and retail trade
Catering and accommodation services	Furniture	Other mining
Tobacco	Footwear	Business services
Wholesale and retail trade	Other chemicals and man-made fibers*	Coal mining
Business services	Food	Communication
Electrical machinery and apparatus	Television, radio and communication equipment	Transport and storage
Community, social and personal services	Basic chemicals*	Agriculture, forestry and fishing*
Excluding medical, dental and veterinary services	Paper and paper products	Other manufacturing
General government services	Water supply*	Electricity, gas and steam*
Civil engineering and other construction*	Rubber products	
Construction (contractors)*	Leather and leather products	
Medical, dental and veterinary services	Wood and paper, publishing and printing	
Transport and storage	Communication *	
Professional and scientific equipment	Basic iron and steel *	

Low Import Penetration	High Import Competition	High Export Orientation
Civil engineering and other construction*	Plastic products	Building construction*
Other chemicals and man-made fibers*	Machinery and equipment	General government services
Motor vehicles, parts and accessories	Printing, publishing and recorded media	Water supply*
Building construction	Coal mining*	Radio, TV, instruments, watches and clocks
Other transport equipment	Coke and refined petroleum products*	Other producers
Other mining*	Wearing apparel	Wearing apparel
Footwear	Community, social and personal services	Other mining*
Wholesale and retail trade	Medical, dental and veterinary services	Textiles
Wood and wood products	Textiles, clothing and leather	Agriculture, forestry and fishing*
Communication*	Transport and storage	Community, social and personal services
Glass and glass products	Other services	Transport equipment
Basic non-ferrous metals*	Petroleum products, chemicals, rubber and plastic*	Electricity, gas and steam*
Beverages	Textiles	Catering and accommodation services
Non-metallic minerals	Finance and insurance*	Motor vehicles, parts and accessories
Metals, metal products, machinery and equipment	Leather and leather products	Medical, dental and veterinary services
Other non-metallic mineral products	Radio, TV, instruments, watches and clocks	Business services
Basic iron and steel*	Excluding medical, dental and veterinary services	Communication*
Professional and scientific equipment	Television, radio and communication equipment	Rubber products
Rubber products	Basic chemicals*	Wholesale and retail trade
Metal products excluding machinery	Business services	Other manufacturing
Trade, catering and accommodation services	Tobacco	Tobacco
Furniture and other manufacturing	Agriculture, forestry and fishing*	Other services
Transport equipment	Other producers	Coke and refined petroleum products*
Paper and paper products		Gold and uranium ore mining*
		Other transport equipment
		Excluding medical, dental and veterinary services
		Finance and insurance*
		Coal mining*
		Transport and storage

*Strategic Sectors

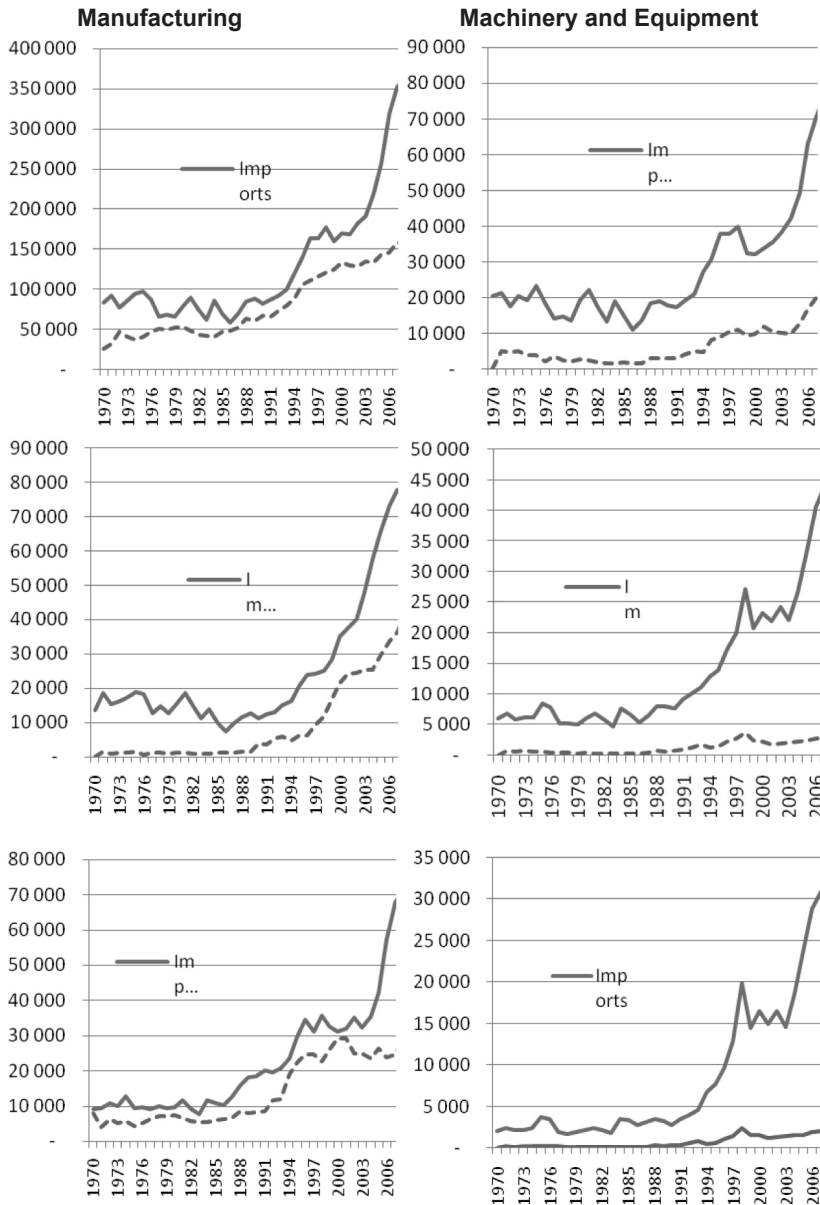
‘high import competition’ means the sector’s growth rate is negatively related to imports, high import penetration means the output of the sector is imported, compared to the overall economy

- 6.11 To explain Table 1 briefly, consider the example of the textiles sector. This sector is highly labour intensive, but it does not exhibit high value-addition, faces high import competition and if supported, has potential to earn the country some foreign exchange because of its export orientation. Interventions in this sector thus must focus on ways to raise value-addition through, for example, technological upgrading and skills development, protection through trade policy instruments and local procurement.
- 6.12 The key thing about the industrial strategy of the new growth path is that it must **identify key sectors and develop linkages between these**. Our economy is characterized by weak backward and forward linkages. Backward linkages are constrained by the fact that a lot of sub-sectors do not have suppliers of inputs domestically, they therefore import their inputs. Forward linkages are constrained by insufficient demand, which is caused by the continued skewed distribution of income and wealth to a few people, low wages and high unemployment.
- 6.13 The current industrial structure has the mining sector being more export-oriented, the manufacturing sector being more oriented towards the mining and energy sectors. As a result, the export performance of the economy relies heavily on minerals, which are subject to large global price shocks. Furthermore, with the incursion of financial markets in the valuation of commodities, global prices of raw minerals and metals have been subject to large swings because of the instability of speculators' expectations⁵⁷. This instability in turn filters through to the manufacturing sector and the entire South African economy—making ours a risky economy to invest in.
- 6.14 The weaknesses between downstream and upstream industries are revealed by the increase in the share of manufacturing imports in the economy. Between 2003—2008 the share of manufacturing imports in total imports rose from 73% to 81%. Furthermore, **82% of manufacturing imports was driven by 5 sub-sectors**: machinery and equipment, transport equipment, (petroleum, rubber, chemicals and plastic products), (TV, radio and communication equipment), (Radio, TV, Clocks and Watches). Overall, the trade deficit of the manufacturing sector was driven by 4 sub-sectors. We list them here together with their trade deficits and shares in manufacturing imports, averaged over the past 10 years:
- Television, Radio and Communication Equipment: **431% deficit, 9% import share**
 - Radio, Television, Clocks and Watches: **397% deficit, 12.5% import share**
 - Machinery and Equipment: **120% deficit, 20% import share**
 - Transport Equipment: **24% deficit, 23% import share**

57 See the United Nations Commission on Trade and Development Report (2009) on excessive “Financialization of Commodity Markets, Chapter 2.

Figure 3 illustrates the historical evolution of imports and exports of these sectors:

Figure 3: Manufacturing Imports and Exports: Selected Sectors (R millions)



Data Source: Quantec

In the light of these figures and the fact that at the heart of any industrialization effort is the building of a strong capital goods sector, we have identified crucial sectors that should form the backbone of the new growth path.

- 6.15 How do we address this **balance of payments problem**? COSATU proposes interventions directed at building an internally coherent industrial structure. Figure 4 outlines the baseline **industrial structure that we propose** should underpin our industrial strategy, with labour intensities in brackets. We seek to orientate those components of mining that are crucial for metals production inward, thereby beneficiating our minerals. Having fabricated metals from raw minerals, these metals must be fed into the **machinery and equipment sector**—which is **the heartbeat of our industrial base**. All other sectors derive their capital equipment from this sector. Within this sector, we identify those firms that produce capital equipment for agriculture, for food processing, for wood and paper products, for clothing and textiles, for cement production, for transport equipment, for TV, Radio, etc., for metals fabrication, for petro-chemicals. The list goes on, as the diagram illustrates.
- 6.16 Preliminary work on government's new growth path has identified the following sectors:
- Infrastructure development
 - Climate change and the green economy
 - Industry: the traded-goods sector
 - Knowledge economy activities
 - Rural, agriculture and agro-processing sector
 - Tourism and BPS
 - Social economy development
 - Public sector growth
 - Regional economy

We support these areas of focus, but would add that they need to be elaborate in detail and the links between these areas be explicitly spelt out. COSATU's approach is to unpack the industry component, because we believe it is important to changing the economic structure and positioning the economy for sustainable growth and development. For example, infrastructure development should be linked to industrial development and social policy, social economy and public sector growth should be linked to changing the structure of ownership and control of the economy, including the role of the state in the economy, knowledge economy activities should relate to moving up the value chain by broadening downstream and upstream linkages, and promoting science and innovation, etc.

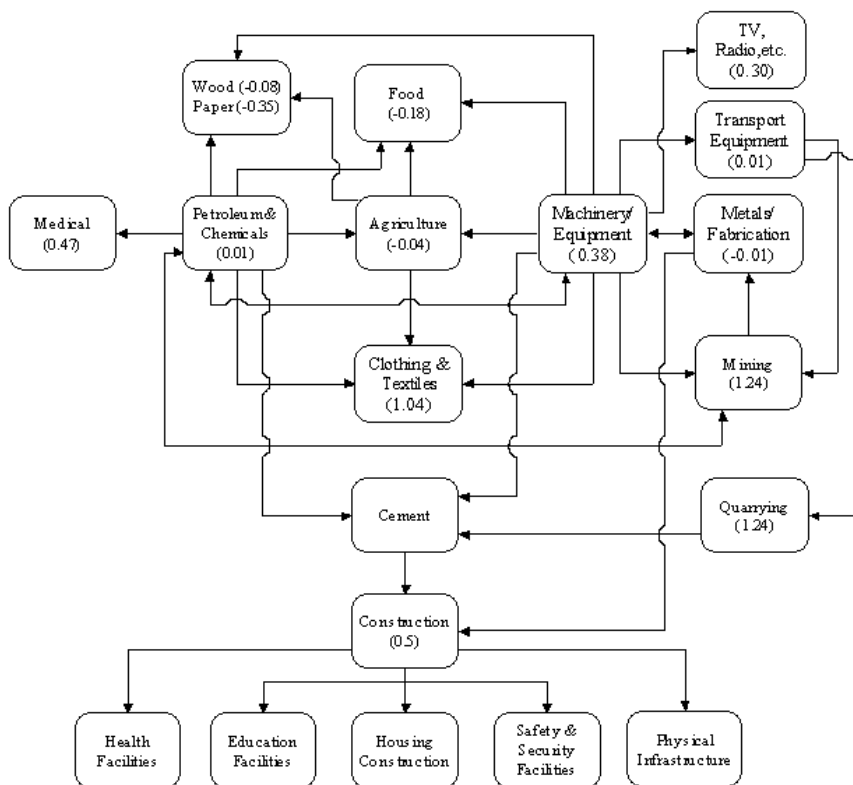
- 6.17 This industrial structure that we put forward begins to add more detail to the above areas, and will go a long way in addressing the balance of payments constraint, deliver basic goods and services, and improve

food security. It will constitute a break with the current Minerals-Energy-Complex. What the structure implies is that:

- **Critical aspects of the mining sector** that are important for industrial development should be made available for **downstream beneficiation**.
- Growth in **metals and metals fabrication** should be supported **for the domestic market** machinery and equipment production, construction and for the production of final goods
- Growth in **machinery and equipment** must be supported, especially to support agriculture, transport, electronics, food processing, construction etc.
- A **balance between agriculture and manufacturing** must be struck, especially by:
 - making inputs to agriculture, especially petro-chemicals and machinery and equipment affordable and available
 - supporting vibrant **agro-processing** firms
 - strengthening the **clothing and textiles sector**

The bottom-line is that if we fail to **build the machinery and equipment sector**, a huge hole will exist in our industrialization strategy. It is thus our proposal that the demand and supply constraints faced by this sector be prioritized.

Figure 4: Baseline Industrial Linkages of the New Growth Path



Over-Arching Strategic Inputs :
 1. Energy
 2. Water
 3. Information, Communication and Technology

6.18 Industrial policy must seek to strengthen the links between the sectors identified in Figure 4. We believe that this industrial structure is enough to:

- Address the question of **food security**
- Deliver **basic goods and services**
- Address the issue of the **balance of payments**.

There are of course other links that are implicit in this scheme, which are important. For example, besides “brick and mortar”, the construction sector requires machinery and equipment, transport equipment and wood. Transport equipment requires petro-chemicals, and so forth.

Nevertheless, the above **schematic structure provides a basis for a sustainable industrial strategy** in which further linkages can be made.

6.19 Another sector which is critical for employment and is a weakness in the South African economy is **the wholesale and retail sector**. The sector is labour-intensive, has low import penetration, has high export orientation and comes second to the financial sector in terms of economic growth. The sector provides a link between productive output and final demand. It makes or breaks downstream industries, especially those in food processing and light manufacturing consumer goods. The sector has, in the past 16 years, seen:

- Massive concentration and centralization of ownership, which stifles the growth and development of small and medium sized producers and co-operatives³.
- An increase in foreign ownership, which changes the structure of governance and corporate culture³

This growth path calls for interventions in this sector to break the power of conglomerates and to ensure that it carries local content to consumers.

6.20 **How do we build and strengthen linkages** between upstream and downstream industries, as suggested by Figure 4? This will require a combination of policies: industrial, trade, skills development, fiscal and monetary policies. Industrial policy interventions must necessarily include:

- **Regulation of exports of³:**
 - raw mineral, including agricultural raw produce and unprocessed wood
 - metals
 - petro-chemicals
- Ban the **export of scrap metal**, and encourage local recycling
- Promote targeted **industrial financing** at generous terms
- Promote **state investment** in the capacity of the targeted sectors
- Link state support with **local procurement and job creation**
- The wholesale and retail sector must carry at least **75% local content**³
- Develop codes and targets for **SMME and co-operative support**

and procurement that apply throughout the economy, not just the public sector

6.20 Re-focus and sharpen the **National Innovation System** around the core sectors of the growth path. To achieve this system the state must:

- Strengthen linkages between Universities, Technical Colleges, Research Institutes, SOE's etc. with a focus on meeting the needs of the targeted sectors
- Link advances in military technology, particularly in Denel, with meeting basic needs and supporting industrial development[□]
- Promote enterprise-level research[□] that builds the industrial base
- **South Africa's corporate culture** has been shaped by the country's colonial legacy. In relation to the environment, South African conglomerates have been very extractive and polluting. In relation to people, conglomerates have been brutal in their exploitation. Changing corporate culture would involve:
 - **Increasing stakeholders' voice in the private sector:** This will increase worker participation in decision-making at company level, e.g. in investment and technology decisions, remuneration, promotions, etc.
 - **Making corporate decisions environmentally sensitive:** This requires a shift in emphasis towards issues of climate change. Management performance should incorporate energy and water efficiency and environmental considerations
 - Transforming **multinational ownership** so that the foreign component does not exceed 51%, this will also limit the leakage through income payments on the current account

6.21 We are aware that the key sectors we have **prioritised are highly energy intensive**[□]. It is estimated that globally, 60% of industrial energy use is accounted for by four sectors: petro-chemicals (26%), iron and steel (19%), non-metallic minerals, especially cement (9%) and pulp and paper(6%)[□]. It is therefore important to **reduce the energy and water intensity** of industrial production to mitigate climate change. This could be achieved through:

- **Establishing institutions for environmental sustainability:** Energy and water management units must be established by major industries and firms to give special focus on energy and water efficiency.

- **Eliminate barriers to best practice energy and water use** for industrial processes: This includes benchmarking, setting standards and targets to be met in order to improve efficient use of energy and water.
- Promote the use of **energy and water efficient components**
- **System optimization**; linking production system reliability to energy efficiency[□]
- Dedicate **R&D capacity on energy and water efficiency** and facilitate knowledge transfer to firms
- Further promote **green industries** through:
 - Imposing a **ban on scrap metal export**, support domestic metals recycling
 - Increasing **re-cycling capacity of non-metals**: plastics, paper, rubber and glass

These proposals should be implemented within an over-arching framework that shifts the economy towards sustainable energy sources.

6.22 We further propose that industrial policy should have a focus on the creation of **Green Jobs**:

- **Formalize and regulate re-cycling**: Currently, re-cycling is to a large extent un-regulated and informalized. As a result, the country loses opportunities to reduce its carbon footprint and to promote environmental sustainability. In addition, especially in poor communities, metal re-cycling in particular has taken a destructive form, where public infrastructure is stripped of metal for the re-cycling industry. Measures to promote re-cycling must therefore take into account these potential perverse effects.
- **Identify sectors where re-cycling can be easily done**: The state should identify quick wins, sectors where re-cycling can be easily implemented. In this way, the state would be promoting efficiencies. However to achieve this, the relevant sectors will have to be mobilized and made aware of the potential for re-cycling that is within their reach and the benefits to their firms for re-cycling inputs and supplying material for re-cycling in other sectors. Furthermore, there should be dedicated R&D to continuously explore re-cycling potential that exists in various sectors and to expand the scope of re-cycling activity.
- **Incentives for re-cycling**: The state should engage in joint ventures

with the private sector to set-up proper re-cycling facilities across the country. Furthermore, the state should find ways to reduce the costs of re-cycling by putting in place incentives for the private sector to engage vigorously in the process. This could take the form of requiring firms to report, as part of their annual statement, on the amount and value of re-cycled inputs they used and the amount and value of material that they supplied and could be re-cycled in other industries.

- **Public Awareness:** We propose that a programme be set up in the relevant department, whose main tasks are to take forward these proposals, to facilitate the required R&D, to undertake public awareness and to monitor the extent of job-creation and the extent to which carbon intensity is being lowered as a result of these initiatives. Care must be exercised because re-cycling processes, even though they may be financially cheap, may be more carbon emitting, if not properly designed.

- The industries that are the foundation in this growth path have a high propensity for environmental destruction. In this light, there is a need to strengthen institutions, policies and R&D to deal with issues such as:
 - **Groundwater** pollution⁵⁸
 - Pollution of **water streams**
 - Environmentally sustainable industrial **waste disposal systems**

6.23 Competition policy is an important instrument that can be used to support industrial development. COSATU supports the proposed focus of the Competition Commission over the IPAP 2 period. The Competition Commission will be focusing on⁵⁹:

- Pricing of certain **strategic inputs** in manufacturing and other productive processes, making these inputs affordable to downstream industries. This will include combating **import-parity pricing** in the economy as a whole

- Pricing of **wage goods** and other products purchased largely by poor and working class households

58 See SA May Face Water Contamination Crisis, Mail & Guardian, 03 February 2008. In that article, it was mentioned that vegetable and fish from the Wonderfonteinspruit catchment area was contaminated with radio-active uranium, water also has heavy metals and salts.

59 IPAP 2, p.33.

- Cost-effectiveness of the **public infrastructure** programme
- Furthermore, we propose that the Commission **must balance the need for competition with the need for decent work** and employment protection⁶⁰.

We further propose **criminalization, beyond fines**, should be taken against CEO's whose companies are found to be guilty of anti-competitive behaviour.

7. Rural Development Policies

7.1 Our vision of rural development consists of the following elements:

- Provision of **decent work** in rural areas
- Large-scale **land reform**
- Promotion of **non-farm activities**—light manufacturing, especially food and non-food processing
- Reduction of **inequality of incomes and assets**
- Eradication of **poverty and improve food security**
- Access to **basic goods and services**

7.2 In this connection, **COSATU notes that the Comprehensive Rural Development Programme**⁶¹, is based on three pillars, which are relevant to the issues being raised in this document:

- **Land reform**—which changes relations on land through tenure reform, restitution and redistribution, with a particular focus on promoting co-operative forms of production in which rural women and youth are empowered.
- **Agrarian transformation**—which focuses on developing value-chains for livestock and crop farming, particularly empowering rural women to access equipment, technology, skills, finance and markets
- **Rural development**—which focuses on building rural institutions, social and economic infrastructure, skills development and the promotion of non-farm activities, especially agro-processing, with particular emphasis on rural women and youth empowerment

7.3 On land reform, **COSATU opposes** the process by which the **state**

60 See Resolution 8 Cluster 1, COSATU 8th Congress.

61 A detailed assessment of the CRDP proposals still needs to be conducted, as a basis for COSATU's inputs on the strategy.

relinquishes publicly owned land in order to make up for land redistribution, whilst racial, gender and class concentration of ownership of land still persists. Instead, we call for:

- The **productive use of state-owned land** by co-operatives
- **Development of a policy to deal with expropriation** of unused or unproductive land, including land currently used for game-farming, golf-estates and land held for speculative purposes
- **Regulate foreign ownership** of land, and encourage productive, job-creating foreign investment in agriculture

7.4 A key element of our growth and development path is the maintenance of adequate **balance between industrialization on the one hand and agriculture and rural development on the other**. On agrarian transformation, COSATU proposes the following:

- Provision of affordable **inputs to agriculture**
- Strengthening the links between **agriculture and agro-processing**
- Provision of **social and economic infrastructure** in rural areas

7.5 It is therefore important that those sub-sectors that produce **machinery and equipment particularly for use in agriculture and food processing** be supported by the state. On the other hand, **regulations on exports of raw agricultural produce** need to be imposed in order to have sufficient supply of inputs for food processing, and to ensure food security.

7.6 The **provision of social and economic infrastructure in rural areas**, particularly in former Bantustans, **should be the catalyst for decent work**. Such infrastructure should be targeted at building the capabilities of rural communities. This would involve:

- **Skills development facilities**—revitalization and extension of colleges, in this connection SETAs should play an important role
- Extension of **health facilities**—extension and building of facilities, increasing resources for those that exist
- Extension of **banking services**—through the extension and revitalization of Post-Bank branches
- **Transport infrastructure**—revitalization and extension of rail and road infrastructure
- Improve **ICT services**—Telkom must have a rural development

focus, connecting rural enterprises, households, schools and health facilities to the information highway.

7.7 But the **critical challenges facing rural development** in South Africa are that:

- 11% of South African land is suitable for farming
- South Africa is a **water-scarce** country
- Large concentrations of the rural population are located on **land that is unproductive or unsuitable for farming**
- In many areas, there is complete **lack of productive agricultural infrastructure**
- Massive **degradation of land due to over-crowded settlements** and soil erosion due to lack of infrastructure

This implies that one of the elements of the rural development strategy must be the promotion of decent-wage employment in non-agricultural activities.

7.8 Given these limitations, **COSATU proposes** that industrial policies to promote rural development must be designed to:

- Pick those **light manufacturing activities** that do not rely significantly on agglomeration economies, that is, the benefits of firms that operate in related industries locating next to each other, are least water-intensive, and encourage them to locate in these areas
- Provide the necessary **infrastructure** for these activities to be supported. In this connection, **SOE's must play a leading role**. They must contain a rural development component in their strategic plans:
 - **Transnet** must revitalize the rail system—connecting rural economies to urban economies
 - **Eskom**—besides maintenance and extension of electrification, explore alternative sustainable energy sources in rural areas
 - **Telkom**—roll out ICT infrastructure
 - **Post Office**—provide banking services, including the transfer of government grants to beneficiaries
 - **SETAs**—must place emphasis on building capacity and fund

programmes in rural colleges, especially targeting women and young people, thereby contributing towards revitalizing rural economies

All SOE's must have a social development component, especially building partnerships with rural colleges and schools, clinics and hospitals. **SOE's must also prioritise procurement from co-operatives.**

- Choose **agricultural activities that are least water intensive**, and encourage them
- Ensure a **state-led programme** that revitalizes and stimulates economic activity through⁶²:
 - Revamping and extension of a nation-wide **irrigation scheme**
 - Provision of **management and extension officers** to implement and monitor rural development support initiatives
 - **State-owned food processing, procurement and distribution** enterprises across food chains (e.g. grain-wheat-flour-bread chain), as a means to democratize food production and increase access to markets by co-operatives and small-scale farmers, and ensure access to affordable basic foodstuffs by poor communities

7.9 The comprehensive rural development strategy will not be effective if there is not **institutional development** to support it. We therefore support the creation of the:

- **Rural Development Agency**—whose main tasks should be:
 - **Technical arm** of the Department of Rural Development and Land Reform, ensuring efficient infrastructure maintenance, water and energy use, and exploring the use of green technologies in rural development
 - **In partnership with NGO's** in the rural development sector, develop innovative ways to promote rural development and to reduce the negative environmental impact of rural development strategies, e.g. changes in bio-diversity, monitoring levels of water and soil quality, etc. to ensure environmental sustainability.
- **A Regulatory Authority**⁶³—whose main tasks will be to:
 - **Regulate food** and other selected agricultural **prices**

62 See Resolution 2.11 from COSATU 10th Congress.

63 See Resolution 6, COSATU 8th Congress.

- Regulate the **export of raw agricultural produce**
- Stabilize food prices through a **state-owned stocking policy** that moves food volumes counter-cyclically to food price movements
- **Restrict speculative activity** in financial markets relating to food and food-related commodity prices, e.g. through a tax on financial transactions.
- A Review of the role of the **Land Bank**⁶⁴, including:
 - Building **technical capacity in the Bank** to provide financial services and management training
 - Position the **Land Bank as the primary vehicle** through which financing of agricultural activity takes place
 - **Financing of the Land Bank** must come from public finances and mandatory private sector financial sources

8. Trade Policy

8.1 Trade policy should achieve the following **goals**:

- Trade policy should support **job creation and retention**
- Build backward and forward **linkages in the economy**
- Promote domestic **value-addition**

8.2 In the pursuit of these goals, trade policy should be guided by the following **principles**⁶⁵:

- Discourage trade with countries which abuse worker and trade union rights
- Increase the **efficiency** of local producers
- Promote **product diversification** for consumers
- It must be based on **consultation** at NEDLAC

8.3 In order to achieve this, the state should:

- Implement strategic **tariff policy**
- Impose **import duties and quotas**
- Levy **export taxes and quotas**
- Combat **customs fraud and corruption**
- Use **non-tariff barriers**

⁶⁴ See Resolution 2.18 (b) (iv), COSATU 10th Congress.

⁶⁵ Report from the Economic Policy Conference, COSATU, 1992.

8.4 **Trade policy is an essential instrument that is used to support industrialization** and in some instances, is a significant source of government revenue. As such, trade policy is a controversial subject, especially with the WTO closing the space for developing countries to deploy strategic trade policy to support industrialization. We therefore support the broad thrust of the new Trade Policy and Strategy Framework, which views trade policy as “instruments of industrial policy which have implications for employment, investment, technology and productivity and that tariff policy should be decided primarily on a sector-by-sector basis dictated by the imperatives of sector strategies”⁶⁶.

8.5 Trade **policy instruments to support specific sectors**, as identified in this growth path framework, **should be accompanied by sticks**. For example, in return for policy support, firms should be required to adhere to certain prescriptions, e.g.:

- Skills development and training of workers
- Democratization of governance structure
- Local procurement
- Decent work
- Closing the apartheid wage gap
- Participation in collective bargaining arrangements

8.6 Trade policy must be implemented in a strategic and developmental manner. By this we mean that trade policy should be:

- **Targeted** at sectors/sub-sectors that build long-term growth and employment potential
- Empower the economy to **domestically produce basic goods and services**
- Phased in a manner that **promotes a positive balance of payments**
- Implemented in such a way as to **minimize price inflation of basic goods and services**

9. Labour Market and Employment Policy

9.1 Overarching Employment Proposal

9.1.1 Labour market and employment policy must achieve the following set of **goals**⁶⁷:

- **Full employment**; all those of working age who are willing and able to work must have access to decent and sustainable employment

66 IPAP 2, p.26. We further support the IPAP 2 approach and emphasis on rapidly upgrading technical infrastructure systems to deal with customs fraud, counterfeit goods, and financial fraud through over and under-invoicing.

67 Draft Resolutions to the COSATU Central Executive Committee, 22—25 June 1998.

- **Redress** the legacy of labour market segmentation and discrimination based on gender, race and age, with the aim of improved quality and security of present jobs, and equal access to new jobs.
- Facilitate **workplace democracy** through enhanced worker control over decision-making.
- Close the **apartheid wage gap**
- **Train and develop** the workforce

9.1.2 **What do we mean by full employment?** By full employment we mean a situation where everyone of working age who is willing and able to work gets work. Such a situation cannot be delivered by the operation of market forces, and current macro and micro-policies are very inadequate because they rely on the same market forces to ultimately deliver employment.

9.1.3 The **Expanded Public Works Programme** could be significantly improved to deliver full and decent employment. This programme offers an excellent opportunity to implement a full employment policy. Nevertheless, there are some important problems with this programme:

- The average work-days are 100— slightly over 3 months; this is **not sufficient to incorporate skills development and training**
- The programme offers temporary poverty relief, and is **not adequate to guarantee income security**
- **There is an element of profit-making** in the programme, outsourced companies employ people to deliver basic infrastructure

These problems a) reduce the effectiveness of the programme in contributing positively to labour market outcomes, b) income insecurity discourages beneficiaries from making long-term plans such as asset accumulation and c) outsourcing drains resources, reduces the extent to which the programme can be expanded and does not promote internal state capacity to deliver basic goods directly. In short, **the EPWP should be a non-profit based employment strategy.**

9.1.4. Our perspective of full employment differs with **the neo-liberal view**, which equates **full employment** to that level of employment that **corresponds to the inflation target.**

9.1.5 In order to achieve full employment we propose that the state reconceptualises the Expanded Public Works Programme in such a way that it acts as an **“employer-of-last-resort” (ELR).** Elements of the ELR are:

- **Employment for everyone** of working age, willing and able to work

- **Productive employment** of the labour force, especially in the delivery and maintenance of social and economic infrastructure
- **Minimum real wage**, which can be set according to skill⁶⁸
- **Skills development**, as a critical element of the ELR

9.1.6 The benefits of the ELR are that:

- It **stabilises aggregate demand**: In the event of a recession, the ELR pool expands and in the event of an expansion, the ELR pool contracts. By so doing, the ELR ensures shallow recessions and longer expansions.
- Because it stabilises demand, the ELR also contributes towards **fiscal sustainability**.
- It **promotes decent employment**: The ELR will make it impossible for precarious work to be rampant, because through this policy, the state would directly intervene to change the dynamics of the labour market. The ELR also directly deals with **structural unemployment** because it guarantees employment across all skills
- It **preserves the skills of the labour force**, thereby contributing to preserving capacity growth during recessions
- It **promotes social cohesion** by reducing problems associated with unemployment; such as crime and malnutrition

9.1.7 Possible criticisms of the ELR, if it is not well designed, are that:

- It could **trap workers in the minimum-wage employment** for a long time
- It could lead to a **reduction of non-ELR wages** towards an ELR wage, and thus create tensions between ELR and non-ELR workers
- It could **spark a wage-price spiral**; ELR employment leads to high demand, which could lead to high price inflation, which in turn could translate in wage inflation, and so on
- It could lead to **exchange rate instability and put pressure on the current account**, because high demand will pull in imports
- It is **too expensive** to finance

68 In Social Equity and Job Creation we had said: "We propose a negotiated wage applicable on these public works programmes. Such a wage should be negotiated through Nedlac. This wage should be set at a level which combines the need for fair labour standards with the requirements of job creation", p.12.

9.1.8 These criticisms are nevertheless inadequate. Brief responses in line with the above sequence of points are as follows:

- ELR is minimum-wage employment that includes skills development, therefore **a worker can move up within the ELR wage structure** thanks to skills improvement
- **With unemployment, i.e. zero wages, the wages of those employed do not fall towards zero.** There are therefore no grounds for the ELR wage to pull the non-ELR wage downwards. Tensions between ELR and non-ELR workers would not arise, because the minimum ELR wage would be the minimum wage for non-ELR workers, i.e. a well-designed ELR will not create a two-tier labour market
- There is **no reason why ELR-induced demand would tend to spark the wage-price spiral**, whilst conventional demand growth does not. Actually, the ELR employment rate would become the critical rate above which, all else taken into account, inflation would accelerate⁶⁹. In fact, the extension of the **full employment policy** will tame the wage-price spiral, since the ratio of non-ELR employment to ELR employment **would replace unemployment as a stabilizing device.**
- **ELR demand is mostly** demand by working class households, who spend most of their incomes on goods and services that are either, thanks to industrial and trade policies, **domestically produced or non-tradable.** Food, clothing and textiles, energy, water, housing and public transport are not as import-oriented as luxury items.
- The **ELR programme over the long term could be affordable:**
 - Simulations of models of ELR find that the programme **does not exceed 3% of GDP**⁷⁰
 - The programme has an element of self-financing, because of the **multiplier effect** that it generates, which feeds back to tax collections
 - The **ELR is effective unemployment insurance**; its links with the Unemployment Insurance Fund must be further investigated.

Further discussions and research is required to examine the modalities and details of exactly how the ELR would work and be financed, and its relationship to other elements of the social protection system.

69 There would be no NAIRU (Non-Accelerating Inflation Rate of Unemployment), but there would be a NAIBER (Non-Accelerating Inflation Buffer Employment Ratio).

70 For Tunisia the ELR is estimated to cost 2.74% of GDP to employ 334 000 people, for Brazil it costs 1.56% of GDP and employs 12 million, for Argentina it costs 1% of GDP and employs 2 million people. For South Africa, it is estimated that the ELR, through scaling up EPWP, can create 571 000 jobs, which costs 1.1% of GDP—but the average wage per month is R750.

9.1.9 The introduction of **the ELR must be phased in**, with targets initially being women, youth, the unemployed, and households with no income at all. Particular attention should be paid to incorporating skills development and training, in line with the developmental mandate of the state.

9.1.10 In the past 16 years, there has been deterioration in income distribution. Partly because of the increase of atypical work, workers have been unable to fully capture productivity gains across sectors. In the light of these developments, we propose the following **wage policy**:

- In every collective bargaining cycle, there should be a **mandatory base drift to close the apartheid wage gap**. There should be a Tripartite agreement on the pace and target of closing the apartheid wage gap.
- **Wage solidarity measures** must characterize wage-setting in the labour market in every bargaining cycle, where the wages of the lowest paid inflate faster and the remuneration of top management inflates the lowest⁷¹
- **The pay-ratio** of the top 10% highly paid managers in companies to the bottom 10% lowest paid **must converge to 16:1**⁷² over time. Targets for reducing the wage gap need to be contained in plans submitted in terms of a strengthened Employment Equity Act.

9.2 Measures to Deal With Youth Unemployment

9.2.1 The scourge of unemployment affects the youth the most. **Of the unemployed, 72 percent are young people** aged between 15 and 34 years of age. Of the unemployed youth, 78 percent are African⁷³. Already, there is a significant number of youth that has never engaged in any type of employment. This situation shows that South Africa may be in an “inequality trap”. The key drivers of unemployment are race, gender, location and education. Unemployment affects those with less than Std 10 the most.

9.2.2 It is estimated that **40% of the unemployed are new entrants** into the labour market, who are almost likely to be young people. Statistics further show that 41% of the unemployed are between the ages of 25 and 34⁷⁴. In addition, 62% of the unemployed have less than secondary school education and 33% have completed secondary education but have no tertiary education. In short, **95% of the unemployed do not have tertiary education**.

9.2.3 **New entrants and job losers make up 75% of the unemployed**. In addition the long-term unemployed, i.e. people who have been unemployed for more than a year, account for 60% of the unemployed. This means

71 See Report from the September Commission, 1997, p.76.

72 See Resolution 3.10.5 (4), COSATU 9th Congress.

73 See H. Bhorat (2006): Youth and education in South Africa, Wolpe Trust Dialogue.

74 Quarterly Labour Force Survey, Quarter 2, 2009.

that most of the unemployment in our economy is structural in nature. Furthermore it is highly possible that what appears initially as cyclical unemployment quickly evolves into long-term structural unemployment. The fact that job losers and new entrants command a large fraction of the unemployed shows that our economy is not absorbing labour.

9.2.4 How is youth unemployment generated? On average, between 2003 and 2009, we estimate that **400 000 young people who wrote matriculation exams failed to proceed further with their studies on an annual basis**. This means that, on average, 2.8 million young people were added to the pool of the unemployed between these years. This figure does not take into account those young people who dropped out of the schooling system. The education system thus prematurely funnels young people to the labour market. Besides the absence of job opportunities reflected by the high level of job losers, these young people are ill-equipped to cope with the demands of the labour market, especially skills.

9.2.5 Part of the problem with youth unemployment is the continued apartheid networks that hinder African youth from gaining a foothold into employment. A study conducted in 2002 found that **being African reduces the odds of being employed by 90%, in comparison to being white**. The data used in the study also shows that despite similar qualifications, whites are on average 30% more likely to be employed than Africans. Furthermore, being female reduces the chances of being employed by 60% compared to being male and the chances of a female being self-employed are 93% less than being male⁷⁵. We do not think these figures have significantly changed since this study was conducted.

9.2.6 In the light of this evidence, **we propose** the following interventions:

- **Strengthening the schooling system:** Clearly, the schooling system is porous, it leaks young people prematurely. The factors that make young people not to complete their secondary schooling must be investigated and addressed. This will require integration with social protection measures, interventions to promote community cohesion and extension of social work support services targeted at addressing problems confronted by the youth.
- **Expansion of the Further Education and Training component of tertiary education:** This will increase the capacity of tertiary education to absorb young people from the schooling system. It will offer young people a range of career options, skill and train them. We thus support the emphasis placed by the Department of Higher Education to expand the FET sector. This will offer government an important lever to control the rate of youth unemployment.

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Mlatsheni C. And Rospabe: Why Is Youth Unemployment So High and Unequally Spread in South Africa? SALDRU Working Paper 02-65.

- **State-owned enterprises**, government departments and municipalities **must play a leading role in offering scholarships and internships to young people** from tertiary institutions, especially from the FET sector. The state in general, must open the doors of learning in tertiary institutions, and provide the critical transition link between tertiary education and private-sector employment. The state must make the FET sector a sector of choice for school-leavers, through resourcing and employing graduates from the sector.
- **Aligning the curriculum content** of the schooling system, FET and HET sectors to the needs of the new growth path. This will require close monitoring by social partners, of the extent to which:
 - The entire education system is integrated and that premature leakages are eliminated
 - Curriculum content addresses both the social and economic demands, in line with the new growth path and the type of society we want to build
 - State institutions and the private sector grow sufficient demand to absorb the number of graduates that are being supplied by the tertiary education system—this will require planning capacity in the Department of Labour.
- **Re-skill existing unemployed graduates, fill all vacant posts:** This can be done with a view to strengthen the capacity of the state by filling all vacant posts. Some of the unemployed graduates can be trained so that they become educators in both the expanded schooling system and the FET sector⁷⁶. These graduates can also be trained to offer critical support to the departments in the social development and the criminal justice system clusters.
- **Support youth SMME's and Co-operatives:** Through procurement, financing and marketing the state should target youth entrepreneurs for support. Effective use and resourcing of the National Youth Development Agency is important so that it offers support services to young people, especially those in rural areas and in working class urban communities. Youth support should be incorporated as one of the areas in the scorecards for firms from which government procures inputs.

9.2.7 Our **proposals differ with the proposal of a youth wage subsidy**. The youth wage subsidy assumes that part of the causes of unemployment

⁷⁶ To meet the projected increase in the intake of the FET sector to 1 million students per annum by 2014, it is estimated that we need 20 000 more lecturers. This means that the sector must increase its intake by 150 000 per annum, from its current 400 000. The number of lecturers must increase by 5000 per annum.

is the high cost of labour. Thus, subsidising firms to hire young people lowers their costs and thereby encourages firms to demand more labour from young people. Indeed, this is the primary reason the National Treasury seeks to introduce a youth wage subsidy⁷⁷. Given the meagre wages that are earned by African workers in particular, we question the validity and appropriateness of this strategy.

9.2.8 Although we do not offer a comprehensive critique of this approach to resolving youth unemployment in this document, one point has to be made. It should be mentioned that **this strategy fails to address the structural causes of youth unemployment** namely, the porous education system, weaknesses in the FET and HET sectors, the persistence of the structure of production, ownership and control of the economy we inherited from apartheid and the withdrawal of the state from directly tackling unemployment through the measures outlined above in particular, and generally from guiding investment and the delivery of infrastructure and basic services. Overall the human resource development and planning, whose outcome must be the alignment of the education system as whole with the public and private sector demands, is seriously lacking in the post-Apartheid state.

9.2.9 The type of unemployment we have is clearly generated by the lack of choices for school leavers to further pursue their studies. The closing down of FET colleges meant that those who could not make it to universities and the then technikons had very limited options than to enter the unemployment pool. Without tackling these and the associated challenges highlighted above, **the wage subsidy will be a form of fundraising for business interests to boost their profitability**, whilst at the same time creating a three-tier labour market system that further worsens income inequalities, with a miniscule effect on the plight of children of the working class.

10. Skills and Human Resource Development

10.1 Skills development and training should achieve the following **goals**:

- Promote worker **effectiveness and flexibility for workers to move across sectors**
- Form the basis for, and be directed towards, clear **career-pathing**⁷⁸
- Bridge the **gap between formal education and workplace experience**

77 See Evaluating the Implications of Introducing a Youth Wage Subsidy. Report to the Unemployment Insurance Fund. Center for International and Comparative Labour and Social Security Law, p.17.

78 See Social Equity and Job Creation, 1996, p.31.

- Increase the capacity of workers, and hence the economy, to **transfer technologies** across and within sectors

10.2 The following **principles** should inform skills development and training:

- **Skills** development must be **linked to social and economic development** priorities
- **Employment must incorporate skills development** and upgrading
- **Anticipate shifts** in production thus making it easy to re-allocate workers
- **Remove profit-making** in the skills development and training process; link SETAs directly with Further Education and Training Institutions and Universities

10.3 Over the past 16 years, our country experienced the following challenges in relation to skills development and training:

- Massive **incursion of private, profit-driven, service providers whose quality of curriculum content varies greatly**—thereby creating anarchy in the skills development and training arena.
- **Poor quality** and feed-through of learners **from the schooling system** to post-schooling systems and the labour market
- **Very high functional illiteracy**, with an estimated 12 million people being functionally illiterate and an estimated 8 million with no schooling
- **Lack of emphasis on ABET and Recognition of Prior Learning** in the workplace, with the result that many workers cannot access training programmes and could not progress through career-development
- **Failure of government departments** to fund, plan and report their skills development programmes
- Failure to address the skills challenge; **scarce and critical skills now exceed 1 million**

10.4 The following are **our proposals** for skills development:

- On **the structure of skills development and training** framework, we propose that the state and private sector:
- Increase the **alignment and synergy between skills development and the education system**; allow for cross-pollination. This can be enhanced by linking public institutions and SETAs

- Skills development and training should be **an integral part of employment equity** and should be aligned to grading systems and pay structures.
- Make skills development and training should be a **critical part of** corporate and public sector **scorecards**
- Make **ABET** available for workers and communities, to facilitate working class and poor communities' access to training programmes
- **Paid education and training leave** should be made compulsory through legislation and collective agreements
- Place emphasis on **apprenticeship training**, with a heavy focus on full four-year qualifications, **unlike short courses**, which lack depth and rigour and ultimately do not contribute to worker-empowerment
- **Ensure that universities and further education and training institutions** find ways to integrate the **Recognition of Prior Learning** in the course-offerings
- On the **funding mechanism and resourcing** for skills development and training we propose:
- **Increase funding** for skills development and training **from the current 1% of payroll to 4%**⁷⁹
- **Ring-fence the 90% of the skills** levy that goes to provincial departments, so that it is used for its intended purpose of skills development
- **Allocate funding for ABET**, to assist workers and communities to transit from workplace experience into the formal education system⁸⁰. In this connection, there is a need for a **review of progress of the Kha Ri Gude Campaign**, which aimed to help 4.7 million people by 2012⁸¹.
- **ABET teachers** must be made **permanent employees of the state**. This will attract a stable workforce and development, into this segment of the teaching profession
- SETAs must use their funding to **build partnerships and capacity in FET's and universities**, especially those located in rural areas and thus contribute to revitalizing rural economies. This will remove the profit-motive in skills development and training, and release more resources.

79 See Social Equity and Job Creation, 1996, p.17.

80 Resolution 3.24.2, COSATU 9th Congress.

81 15 Year Review, the Presidency, p.76.

- In terms of the **skills to be prioritized**, we proposed that these be aligned to the needs **of the sectors identified in this growth path (see Figure 4)** and, because of the infrastructure-intensity of employment in the short to medium term, we propose that **ABET** be rolled out simultaneously with the roll-out of infrastructure. This will create further **jobs for ABET teachers**.

11. Macroeconomic Policy

A. Saving and Investment

- 11.1 Corporations in South Africa have made massive profits since 1994, more after 2000. Due to **relaxation of capital controls**, most of these profits were repatriated in the form of dividend payments. The major cause of the current account deficit between 2000—2008 has been the outflow of profits. This reduced the amount of savings that could have been used for domestic investment. Therefore, **a critical element of the financial policies in this growth path, is to reverse the relaxation of capital controls**.
- 11.2 **Financial Institutions:** This growth path will not succeed unless there is a specified percentage of assets that are prescribed by legislation to be invested in priority areas.
- 11.3 **A Review of the Investment Strategy of the PIC:** There needs to be a review of the investment strategy of the PIC, to explore whether adjustments cannot be made to maximize the development impact of PIC investment.
- 11.4 **Trade Union Investments:** There is a need to review the investment strategies of trade union investment companies to ensure that they are aligned to the economic objectives of this growth path.
- 11.5 The state is still characterized by **massive inefficiencies** and lack of co-ordination. There is still a lot of scope to save more resources in order to finance social and economic development. Furthermore, our proposal for the elimination of the profit-motive in the direct provision of basic goods and service will go a long way in generating savings.
- 11.6 Another way in which development can be financed is through **the creation of a state bank**. A state bank will ensure that interest rates are low enough to finance productive economic activity. This places less emphasis on financial markets to transmit monetary and fiscal policy impulses to the economy. The state bank will therefore discipline financial markets and reduce volatility. However, for the state bank to perform its functions, it needs to have a special relationship with the Reserve Bank, as the over-arching regulator of financial markets.

- 11.7 Another way to generate resources for development is through **public ownership of gold mines**. If a percentage of the gold produced is used as a reserve through which critical inputs can be acquired from abroad, this will lessen the pressure for foreign exchange, because the profit motive would be eliminated in the acquisition of reserves.

B. Fiscal Policy

B1. A Critique of the Fiscal Policy Framework

- The current fiscal policy framework claims to support COSATU's pillars of the Post-Apartheid Growth Path. Its **goals** are to promote⁸²:
 - Economic growth
 - Job creation
 - Equity and social development
 - Limit South Africa's dependence on foreign savings and investment⁸³
- The core elements of fiscal policy continue to be deeply rooted in GEAR. To achieve the above objectives, current fiscal policy aims to:
 - **Reduce inflation**
 - Stabilize the debt level through **deficit reduction**
 - **Lower overall tax burden**
- **The theory that underpins fiscal policy** asserts that:
 - **Fiscal deficits are inflationary** in the sense that they tend to:
 - Increase aggregate demand excessively
 - Invariably would have to be financed through money-printing
 - Because of the inflationary impact of fiscal deficits, it is claimed there will be an **increase in the long-term interest rates** in bond markets which:
 - Undermines private sector investment
 - Increase the cost of borrowing, and further increase the interest burden on the budget. Fiscal deficits are therefore de-stabilizing.
 - Cruder versions of the same view assert that fiscal deficits **crowd-out private sector investment** because government takes from the "loanable funds" in financial markets, which could be used by the private sector, to finance the deficit.

82 See Medium Term Budget Policy Statement, 1998, p.14 and subsequent issues of the statement.

83 The fiscal policy framework dismally failed to achieve this. More than 75% of investment is now financed by foreign investment, up from virtually zero in 2002.

- **Stabilization of public debt to a low level** is meant to reduce the “risk premium”, and hence the cost of borrowing. This fiscal parameter has come to define “sound macro-economic policy” and “fiscal prudence”.
- The **private sector is claimed to be more efficient in using** resources compared to the state. Hence, an overall reduction in the tax burden on the private sector is required to unleash private sector expenditure and to support economic growth
- **The cornerstone of the current fiscal framework remains GEAR.** Its approach is not based on targeting social development indicators to promote equity and job creation. Rather its perspective is that:
 - Job creation remains the main responsibility of the private sector
 - **So-called Fiscal discipline** in particular, remains “a central plank of macroeconomic policy as outlined in the Growth, Employment and Redistribution policy document published in 1996”⁸⁴
 - **Fiscal policy is dominated by monetary policy**, and is constrained to be non-inflationary, i.e. must generate an outcome that is consistent with the inflation target
- The current fiscal policy framework is inconsistent with the basic tenets of an employment-based, redistributive and transformative growth path because:
 - It **makes fiscal policy to be pro-cyclical and not counter-cyclical**: When the inflation-forecast rises, interest rates increase in such a way as to generate high interest payments on public debt, **the growth rate falls**, cutting the tax base, **and thus forcing government spending to fall**
 - The **discretionary component of fiscal policy** is replaced by the operation of automatic stabilizers—which are not adequate, given the large shocks, structural deficiencies in the economy and the amplitude of South Africa’s employment cycle
 - An inflation-based macroeconomic framework **constrains fiscal policy** from being aggressive enough to address backlogs in social and economic infrastructure and to create jobs
 - The **link between the fiscal deficit, interest rates and crowding out is questionable**, especially when deficit spending boosts social and economic infrastructure, or is directed at

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For further details on the pillars of macroeconomic policy see G. Marcus: The Implications of Fiscal Issues for Central Banks: The South African Experience, BIS Papers 20, 1 October 2003.

sectors with large multipliers

- Deficit reduction through “**moderation of government spending**” may generate an output contraction or a deceleration in growth, which tends to **lengthen the recession in the labour market and increase structural unemployment**
- The current fiscal framework **lacks a structural analysis of the economy**, and is therefore not transformative:
 - **Its focus on inflation fails to address cycles in the labour market**, especially because in South Africa, what appears to be short-term unemployment quickly turns out to be long-term unemployment
 - Because **this fiscal framework is not linked to the imperatives of industrial policy**, it fails to manage changes in the composition of output, which in turn leads to massive dislocation of workers, **thereby contributing to structural unemployment**
 - Exacerbates the **vulnerability of the economy to balance of payment problems**, because the tax system is not designed to increase value-addition and promote downstream industries
- The current fiscal framework places **heavy reliance on market forces**, e.g. the response of the bond market to the fiscal surplus, the response of investment to the long-term interest rate, etc. But for market forces to deliver desired outcomes will require the transmission of the alleged benefits through a number of intermediate links which are usually empirically dubious, and they have failed to deliver the desired outcomes in the past 16 years. In any event, **the moderation in the growth rate due to the moderation in expenditure likely overwhelms the interest rate effect on productive investment.**

B2. An Alternative Fiscal Policy Framework

- The **goals** of fiscal policy must be to:
 - Achieve **full employment**
 - **Redistribution** of income and power
 - Social and economic **transformation**: changing the structure of the economy and the social relations that underpin it

- Support an **environmentally sustainable** growth path
- The **core elements** of the new fiscal framework must be:
 - **Stabilize employment** over the business cycle, and increase employment over the long term.
 - To influence **changes in income distribution** over the business cycle, and set target share of workers in national income over the long term.
 - Influence the **structure of the economy** through activist tax and expenditure policies, in line with the requirements of the new growth path.
 - Strike an appropriate **balance between** the provision of social and economic **infrastructure, meeting basic needs and providing social protection.**
 - **Provide incentives** for environmentally sustainable, job-creating activities.

B3. Expenditure Policy

- **Dealing with unemployment:** The expenditure side of fiscal policy must put employment creation, particularly the employment of the unskilled and long-term unemployed, at the forefront through the ELR policy. This will tackle the structural unemployment crisis. But also, expenditure policy must respond sufficiently to cycles in employment and prevent job losses. This will require fiscal policy to be forward-looking and anticipatory. We propose that **a measure of labour intensity of public expenditure be developed**, and a target be set as the common yardstick to monitor the contribution of state expenditure to overall labour intensity.
- **Redistribution:** Expenditure allocation must be clearly biased towards building social and economic infrastructure in rural areas and in working class urban areas. In other words, expenditure policy must **increase the social wage**. But increasing the social wage means that expenditure in working class and poor communities must exceed by a certain ratio the taxes and charges collected from the working class and these communities.
- **Transformation of expenditure:** Expenditure should be aligned, as far as possible, to support the sectors prioritised in this growth path document. Furthermore, expenditure should reduce the vulnerability of our economy to balance of payments problems by promoting local procurement. We propose that **75% of state procurement be from**

local industries, and that industries be mandated to procure a targeted value of their inputs from other local producers, with the aim of ultimately procuring 75% of their inputs locally⁸⁵.

In relation to BBBEE, there should be a strong emphasis on local content, whilst a target for procurement must be developed as well. Local content must be integrated within the BBBEE scorecard. Ultimately, from our perspective, we advocate a fiscal policy that strengthens the long-term potential of the economy to create decent work. However, **a number of BBBEE initiatives have reinforced the colonial structure of our economy by importing goods which could be manufactured locally.**

Furthermore, there should be expenditure **targets set for co-operative procurement and SMME support.**

B4. Tax Policy

- **Redistributive tax interventions** can be implemented through a⁸⁶:
 - Progressive tax system, with an introduction of a tax category of the “**super-rich**”
 - **Solidarity tax**, whose aim is to cap the growth of earnings of the top 10% and to accelerate the earnings of the bottom 10%
 - Tax on both domestically produced and imported **luxury items**, but a higher tax on luxury items which are imported
 - **Increase in the Secondary Tax on Companies**, to encourage re-investment, job creation and to reduce the financialization of company assets
 - **Imposition of a land tax**, to aid the process of land redistribution
 - **Zero-rating** of basic food stuffs, medicines, water, domestic electricity and public education
- **Transformative taxes** must be used to support industrial development, and must be targeted to assist the development of the targeted sectors of this growth path. The taxes (and credits)

85 See Resolution 3.1 (j), COSATU 9th Congress and Resolution 2.46.1 (f), COSATU 10th Congress.

86 See Resolution 2.44, COSATU 10th Congress. Social Equity and Job Creation, 1996, p.22—26. Accelerating Transformation, 2000, p.103.

we propose should be imposed are:

- **Export taxes** on strategic minerals, metals and other resources: to support downstream industries and to promote value-addition
- **Investment tax credits:** to encourage local procurement of machinery and equipment
- Tax on **financial transactions** including a capital gains tax above a certain minimum threshold: to limit short term capital flows and to encourage productive investment⁸⁷ ; and 'speed bumps' on short term capital flows, to discourage hot money
- Special taxes on **speculation on strategic commodities:**
 - On food and food-related speculation
 - On strategic raw minerals and metals
- A transformative tax to firms that are stubborn in closing **the apartheid wage-gap**
- The tax system must be adjusted to maintain and promote a **composition of output** that is consistent with this new growth path, over the business cycle and over the long term

B5. Stabilization Potential of Fiscal Policy

- **Fiscal policy must be employment-oriented; employment promotion and stabilization must be the centre-piece of the fiscal stance.** This means that fiscal policy must respond systematically to the a) employment cycle, b) income distribution and c) changes in the composition of economic growth, in support of the employment promotion and stabilization potential of industrial policy. Furthermore, fiscal policy must support the Employer-of-Last-Resort Policy in order to maintain full employment over the business cycle and in the long-term.
 - **Three real cycles** interact in the economy:
 - **Goods market cycles**, which are cycles in the growth rate of demand in the economy

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A UNDP study by Pollin R. et.al: An Employment-Targeted Economic Program for South Africa, estimates that by extending the Uncertified Securities Tax to the bond market, it could raise R12 billion per annum for government, depending on assumptions one makes about the tax rate and its debilitating effect on financial trading, 2006, p.85.

- **Labour market cycles**, which are cycles in the growth rate of employment
- **Income distribution cycles**, which are cycles in the relative shares of labour and capital in national income

In general cycles in aggregate demand tend to lead those of employment with a significant time lag. This means that even when the goods market is in a recovery, it tends to take longer for the labour market to emerge from a recession. In an employment-based fiscal policy framework, it is the cycle in employment that takes precedence. Fiscal policy is directed towards stabilizing the employment cycle. This means that, **even if the goods market may rapidly recover, it is the recovery in the labour market that should inform the fiscal policy stance.**

- **Redistribution as a stabilizing force:** Redistribution is not only a long-term objective; it is also an important short-term stabilizing force. **Working class and poor households constitute a large part of domestic demand for downstream industries.** In a down-turn, a redistribution of income towards these households will help support domestic demand, and reduce the depth of the recession. **Fiscal policy cannot therefore leave fluctuations of income distribution over the employment cycle to be sorted out by the wage-price spiral;** it needs to intervene in a manner that targets a certain level of income distribution in order to maximize job creation.
- **Fiscal policy, particularly the composition of taxes and expenditures, must respond to changes in the composition of output.** This will impart sensitivity in the? industrial structure to fiscal policy, and increase its potential to stabilize employment, the balance of payments and to strengthen domestic linkages between sectors. At the centre of this new growth path is industrial policy, which seeks to transform the composition of national output and the size of certain sectors. Fiscal policy should support the composition of output over the business cycle and in the long term. This can be done through targeted changes in taxes and expenditures to support sectors that are at the heart of the growth path.
- **Employer-of-Last-Resort as a stabilizing force:** Ordinarily, recessions would be accompanied by a collapse in incomes, or even zero incomes for those who cannot access state support in the event they lose jobs. The ELR policy minimizes the fall in people's incomes during downturns. Those who are in the ELR programme are likely to have a high propensity to consume, thereby boosting aggregate demand and stabilizing the fiscal position through the protection of the tax base.

C. Monetary Policy

“The South African Reserve Bank is the central bank of the Republic of South Africa. It regards its **primary goal** in the South African economic system as *“the achievement and maintenance of price stability”* [South African Reserve Bank].

“...the creation and retention of decent work and sustainable livelihoods will be the **primary focus** of all economic policies of the ANC government... Our fiscal and monetary policy mandates including interest rates and exchange rates need to take into account employment considerations, economic growth and other developmental imperatives” [ANC Manifesto Policy Framework, 2009].

C1. Critique of the Current Monetary Policy Framework

- The current monetary policy framework also claims to support COSATU’s pillars of the Post-Apartheid Growth Path. Its **goals** are to⁸⁸:
 - Protect the value of the currency in the interest of balanced and sustainable economic growth in the Republic.
- The Reserve Bank interprets this to mean **“price stability as well as stable conditions in the financial sector as a whole”**⁸⁹. Specifically, the Reserve Bank explicitly adopted inflation-targeting as a framework to achieve price stability.
- **Inflation targeting** is made up of the following elements⁹⁰:
 - The public announcement **specifying medium to long-term targets for inflation**
 - An institutional **commitment to price stability** as the primary goal
 - Increased monetary **policy transparency**; communicating the rationale for decisions taken by monetary authorities
 - Mechanisms for **increased accountability** for attaining the inflation objective
- Advocates of inflation **targeting generally make four claims**. They

88 See: Clarification of the Reserve Bank’s Mandate, Minister of Finance P. Gordhan, 16 February 2010.

89 See: A New Monetary Policy Framework, T.T. Mboweni, 6 April 2000. It could however be argued that inflation-targeting was adopted implicitly around 1989—1992, and formally introduced in the democratic movement in GEAR (1996).

90 See: The Objectives and Importance of Inflation Targeting, T.T. Mboweni, 2002.

claim that the policy:

- Improves **the co-ordination of fiscal and monetary policies**
- Increases the **accountability** of the central bank
- Improves the **communication** of the central bank with the public
- **Anchors inflation expectations** to low single-digit levels thereby
- **Decreasing long term interest rates** which make it easy for firms to invest, grow the economy and create jobs.

However there are certain fallacies in these arguments-

- **On fiscal-monetary co-ordination:** When there is agreement about a specific ratio of public debt to GDP, inflation turns out not to be the only variable that can be used to co-ordinate fiscal and monetary policies. The real or nominal growth rate of the economy can equally serve the same function. This alternative should however not be interpreted as a general alternative to inflation targeting, it is rather an alternative way, *and just one aspect*, of co-ordinating fiscal and monetary policy.
- **On inflation targeting and accountability:** To this day, the SARB, and almost all central banks, refuse to reveal their preferences between inflation and output or employment. Yet, they are quick to claim that they are transparent. The advocates claim that with inflation targeting, clear targets are set and if the actual inflation rate deviates from these targets, the central bank has an obligation to explain why this is the case. Suppose the central bank targets the real or nominal growth rate of output, or even, the growth rate of employment. There is nothing that stops the central bank with such a mandate from announcing clear targets around these variables. When for example, the growth rate of employment deviates from target, this central bank can also explain why this is the case. Accountability is therefore not uniquely an inflation targeting feature⁹¹.
- **On central bank communication with the public:** The central bank can communicate with the public even if it is not targeting inflation, because it still has to explain what drove deviations from its non-inflation targets. Currently, inflation targeting central banks use monetary policy statements or inflation reports to communicate to the public. A non-inflation targeting central bank can issue a “macro-

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It could be further argued that inflation-targeting is worse when it comes to accountability and communication.

conditions report”, which highlights prospects for variables that are targets.

- **In short, accountability and communication are more outcomes of the depth of democratic culture than inflation-targeting.** Lack of publication of minutes of the Monetary Policy Committee, the lack of information surrounding the rationale behind management of the asset composition of the Reserve Bank’s balance sheet and the rationale behind the generation of the liabilities of the Reserve Bank, are some of the more substantive matters that go to the heart of central bank transparency and governance.
- **On inflation targeting leading to low interest rates:** Studies have been conducted on whether inflation-targeting contributes to this situation. These studies come at best with mixed results, they find that there are no significant differences in economic performance between central banks that engage in inflation targeting and those that do not. In fact, there are deep questions about whether the fall in price inflation that has been experienced in the 1990’s can be attributed to inflation targeting, or to real factors such as productivity growth in excess of real wage inflation. In South Africa for example, there is ample evidence that income distribution has worsened since the mid-1980’s, posing the question of whether this may not have been responsible for the large decline in price inflation.
- **On inflation targeting and interest rates:** Non-inflation targeting economies experienced the same phenomenon of falling interest rates and inflation rates. For economies that suffer from large external shocks, one has to wonder whether depressing demand through interest rate increases makes sense. Using the interest rate when the public knows that the main driver of inflation is not demand but oil prices, food prices, commodity prices and speculative exchange rate fluctuations will not help the situation.
- Beyond these arguments **COSATU rejects inflation-targeting** because:
 - **It constrains fiscal policy, making fiscal policy pro-cyclical:** If inflation is forecasted to exceed the target, interest rates are increased. The growth rate of output will fall, cutting the tax base. This puts a strain on the budget by increasing the interest burden and raising the primary deficit. Public debt then explodes over time, forcing fiscal policy to be contractionary or rather, “prudent”, which means running a balanced budget or surplus budget by cutting government expenditure.
 - **Inflation-targeting and economic growth:** Faced with a situation where inflation is above target and the growth rate is below the potential of the economy, with both deviations being of equal

amounts, an inflation-targeting central bank will increase interest rates, even if the economy experiences a rising unemployment rate. The issue is not that inflation-targeting does not care about growth, the issue turns on the extent to which it takes growth into account. As Mboweni put it so well sometime back: “Too narrow a focus on inflation will result in interest rate and output volatility...By contrast too much of a focus on the cyclical growth issues will result in greater inflation variability...the issue then is the appropriate trade-off between rigid adherence to the inflation target on the one hand, and a steady path of output on the other, bearing in mind credibility issues”⁹².

- **Inflation-targeting lacks structure:** Inflation-targeting advocates argue that by achieving low inflation, the rest of the macro-variables: economic growth, employment and the balance of payments will fall into line. However, experience seems to suggest otherwise. Ever since inflation-targeting was adopted the industrial structure of the economy has not changed. In fact, the change that has occurred has been in the wrong direction. Speculative financial activity rose phenomenally in the 1990’s. In 2004, it was estimated that secondary market bond trading accounted for 685% of GDP⁹³. This practice of central banking flies in the face of facts about how industrialized emerging market countries used central bank policy to drive industrial development and to create sustainable jobs.
- **Inflation-targeting is destabilizing:** Because it lacks structure and uses one instrument, inflation targeting focuses on a single over-riding variable to gauge macro-imbalances. This is dangerous. As has been noted by a number of authors, bubbles in financial markets may build up while inflation remains within target—asset prices can increase, strengthen private sector balance sheets, and loosen credit markets, which in turn pushes asset prices further. But in the process, inflationary pressures can remain benign, leading the central bank to maintain a low interest rate environment. When inflationary pressures finally build up, and interest rates increase, it can lead to economic collapse. The current economic crisis, can be attributed to the “remote-control” mechanism that inflation-targeting imposes on central bank behaviour in relation to the private sector.

C2. An Alternative Monetary Policy

- In this document, **elements of a new monetary policy** that is required to support the growth path are outlined briefly. A more detailed

⁹² See: The Objectives and Importance of Inflation Targeting, T.T. Mboweni, 2002.

⁹³ See: An Employment-Targeted Economic Program for South Africa, R. Pollin et al, 2006, p.85.

treatment will be provided in a companion discussion document that deals with the mandate of the Reserve Bank. In the new growth path:

- **Employment will be the primary target** of monetary policy, whilst price stability plays a subordinate role.
 - Monetary policy **will support industrial development**
 - **Foreign exchange control** measures will be an essential part of monetary policy
 - **Exchange rate management** will be one of the pillars of the monetary policy framework
 - Reserve Bank **asset and liability management will have to be aligned to our development mandate**, in order to strengthen the capacity of the state and the economy to deal with the balance of payments problem
 - Monetary policy must **support an expansionary developmental fiscal policy**
 - A **broader and more sophisticated framework of fiscal-monetary co-ordination** will be required to promote macroeconomic stability
- **Employment-targeting:** The Reserve Bank must pay primary attention to the cycle and long-term trend of employment growth⁹⁴. A greater weight must be placed on employment fluctuations. This does not mean that price stability is not taken into account. As former governor Mboweni put it, it is the “appropriate trade-off” between inflation and unemployment which needs to be addressed. We however, do not subscribe to the view that inflation targeting is a necessary policy to build credibility, nor is credibility in the eyes of financial markets the paramount, overarching prize monetary policy should aim for. Neither do we believe that “credible monetary policy is essential for a new growth path and more job creation”.

Such views wrongly rely on financial market forces to address structural problems engineered by state policy—high unemployment, inequality of incomes and power, poverty and the crisis in social policy. Instead, we believe that a state-led growth path, in which market forces are marshalled to operate within certain parameters, is essential for South Africa to be on a decent work-creating growth path. We thus agree with Keynes in his concluding remarks, when he says: “The state will have to exercise a

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We thus reject the monetarist view that macro-policy does not have any impact in the long-run, it is once again based on a structure-less analysis of economic dynamics and assumes that the state of the economy is independent of its path.

guiding influence on the marginal propensity to consume... Furthermore it seems unlikely that the influence of banking policy on the rate of interest will be sufficient by itself to determine an optimum rate of investment. I conceive, therefore, that a somewhat comprehensive socialization of investment will prove the only means of securing an approximation to full employment⁹⁵.

This means that in order to address the unemployment problem, the Reserve Bank has to use a combination of tools and must co-operate with fiscal policy. No single tool, e.g. the interest rate, will be sufficient to combat structural unemployment and large cycles in the labour market.

- **Asset-based requirements:** The Reserve Bank will also have to monitor and enforce **quantitative controls on commercial banks** to ensure that a certain fraction of their loans goes to priority sectors that drive the growth path. This will ensure that the financial sector is rooted in the real sector and plays a developmental role that complements state policies. Asset-based requirements should be actively used as a developmental tool to orient the financial sector towards a developmental agenda⁹⁶.

Monetary policy must thus be supportive of industrial policy. **The manipulation of the interest rate** with the hope that financial markets will achieve the restructuring of the economy **is grossly inappropriate and inadequate**. Instead, quantitative control measures on the financial system, more than interest rate manipulation, will have to be applied in order to support changes in industrial structure.

- **Exchange rate management:** The Reserve Bank must resist pressures on the real exchange rate to appreciate. It must follow a strategy that imposes capital controls to manage sharp depreciations, accumulate foreign exchange reserves more aggressively, administer a tax on capital flows and impose frictions on foreign exchange transactions. *Controlling appreciations* will go a long way in stabilizing the external value of the rand, and to boost industrial development. The knee-jerk reaction of those trained in orthodox mainstream economic theory is that intervening in foreign exchange markets is costly, and makes the economy vulnerable to currency attacks. The latter criticism does not hold because our approach to exchange rate management does not require the Reserve Bank to limit depreciations, less so through running down reserves, which is intrinsically unsustainable.

The criticism, that foreign exchange reserve accumulation is costly

95 See: The General Theory of Employment, Interest, and Money, J.M. Keynes, Prometheus Books, 1997 (1936), p.378.

96 See: An Employment-Targeted Economic Program for South Africa, R. Pollin et.al, 2006, p. 102.

is not based on sound developmental reasoning. The cost of foreign exchange reserve accumulation, superficially calculated, is the spread between the domestic interest rate and the interest rate earned from owning foreign securities. The costs of accumulating reserves are thus not independent of domestic monetary policy. If domestic monetary policy maintains high interest rates, the superficial cost of reserve accumulation will be high. **Our approach to monetary policy will deliver low costs because it is aimed at bringing interest rates down.** Secondly the superficiality of calculating reserve accumulation costs in the manner just described, which emphasizes only financial considerations and ignores developmental imperatives, fails to take into account the long-term devastation of the economic structure, the likely result of structural unemployment and the poverty associated with it, if the exchange rate is not managed so as to avoid excessive appreciations.

- **Reserve bank asset and liability management will have to be aligned to our developmental mandate:** Currently the Reserve Bank accumulates foreign assets by selling domestic currency, or Rand-denominated securities in exchange for foreign-denominated securities. This way of managing the bank's balance sheet and the exchange rate has its limitations. In certain situations, especially when the economy is in an expansion, this may increase inflationary pressures. This may however be alleviated by the use of cash reserve requirements, whose effectiveness is open to question.

A non-inflationary way to build the assets of the country is to accumulate gold bullion, which can be acquired from the mining sector. By imposing a heavy quota on gold exports and/or increasing public ownership of the gold mines, South Africa can begin a process of **gold reserve accumulation, which can be used to purchase critical inputs that we need for industrial development.** With gold reserves, South Africa can acquire whatever currency it needs, to buy important inputs and to balance its asset portfolio if it needs to, without facing a significant domestic inflationary barrier.

- **Monetary policy must support an expansionary developmental fiscal policy stance:** In this growth path, **the central bank policy cannot be independent of fiscal policy actions,** and it must conduct its activities in a manner that supports the stance of fiscal policy. The operational mechanics of how the Reserve Bank generates outcomes that would make fiscal policy and employment creation stable and sustainable can be best left to the technocrats of the Bank, but the framework within which the actions of the Reserve Bank are undertaken will be determined by the stance of the fiscal policy of the democratically elected government.

The operational mandate of the Reserve Bank should therefore be

altered to move away from the current inflation-forecast targeting framework. Instead a more dynamic and broader framework that considers fiscal sustainability, the sustainability of the external balance, the path of unemployment reduction and price stability should be considered. The precise formulation of such a framework is a matter that is taken up in a separate discussion document, but the underlying message of this growth path framework is that **the inflation-forecast is not a sufficient gauge of the overall imbalances of the economy, and in fact it may be a misleading indicator of such imbalances**⁹⁷.

- **A broader framework for fiscal-monetary co-ordination:** The current inflation-targeting framework adopts a cavalier attitude towards a number of factors by limiting fiscal-monetary co-ordination only in relation to the dynamics of public debt. However, such a narrow focus has generated structural changes that have tended to make macro-policy destabilizing. An important example where fiscal-monetary policy co-ordination, goes beyond the dynamics of public debt, relates to exchange rate management.

Ordinarily, an appreciation of the exchange would be countered by a decrease in the interest rate. However, the resultant increase in bond prices tends to divert speculators to the stock market and foreign capital inflows may thus be equity-driven. A cavalier macro-economic management, especially in relation to financial markets, may thus blunt the effectiveness of policy tools. However, **taxes on capital gains and short-term capital flows can be applied in combination with a reduction in interest rates** to achieve the desired path of the exchange rate. Such a combination of tools requires the co-operation between fiscal and monetary authorities, beyond the dynamics of public debt. It is such policy combinations or policy packages that are essential to achieve an employment-led and pro-poor growth path.

97 In their conclusion Frankel et.al (2007) propose that the Reserve Bank considers a nominal income growth targeting, which effectively puts inflation and growth on the same footing, unlike under inflation-targeting [See South Africa: Macroeconomic Challenges after a Decade of Success, RWP 07-021]. The interest rate remains the operational tool. Such a framework speaks directly to fiscal sustainability, if the dynamics of the government budget are properly taken into account. However, the fact that the split between inflation and real output in the nominal income growth measure is indeterminate is a matter of concern.

PART III SOCIAL POLICY

12. Education

12.1 The education system is a **key element of the new growth path**. It plays a critical role in the transfer and development of skills and technology. The education system also plays an important role in broader social development through promoting a critical, informed and active citizenship.

12.2 The **goals** of the education system must be to:

- **Develop every individual holistically** to their full potential, which includes mastering the basic skills of:
 - Numeracy
 - Literacy
 - Language
 - Communication
 - science
- **Socialize learners**, which involves teaching learners:
 - Culture
 - Languages
 - History
 - Citizenship
 - Values
- Develop **critical thinkers** that are able to defend democracy, advance social and international solidarity
- Develop **healthy** individuals with an emphasis on:
 - Physical education
 - Sports
 - Health education
- Develop the individual's capacity for **lifelong learning**
- Develop skills and knowledge appropriate to the demands of higher education, **social and economic development**

12.3 The **principles** that should underpin the education system and policy must be:

- **Redistribution**: The urgent need to **eliminate the three-tiered structure** of the education system which features: private institutions,

model-C schools, and ordinary public schools and to redistribute resources towards ordinary public schools in working class and poor communities

- **Promoting a culture of learning and teaching**
- Promotion of **decent work**
- Promotion of **human rights**
- Elimination of **race, gender and class** oppression and discrimination
- Equitable—it should **level the playing field for all learners** independent of their class, race and gender

12.4 An important aspect of the education system is **quality**. Five aspects define quality education⁹⁸: the **learning environment, what learners and educators bring, curriculum** content, teaching and learning **processes** and support systems for learners and teachers, **outcomes** of the education system. Although the education system is in crisis in all these aspects, **it is the learning environment that is the most pressing**.

12.5 The challenge is to ensure that initiatives to improve the quality of education must have, at the core, the **creation of decent work**. As we highlight below, the infrastructure and human resource backlogs in education offer an opportunity for the state to:

- Directly **support the relevant industrial sectors**
- Expand **employment directly by providing bulk infrastructure**
- Support local communities, especially **co-operatives**, which produce basic building materials, such as bricks
- Ensure that infrastructure in the education system supports the use of **alternative energy sources**

12.6 **Major challenges and backlogs** continue to plague the education system. Although there has been massive improvement in the following indicators, more still needs to be done to support the new growth path. Our schools are not healthy, safe and are not conducive for quality learning and teaching. Currently⁹⁹:

98 See Quality Education For All—From a Girl's Point of View, UNICEF Booklet.

99 See National Education Infrastructure Management System (NEIMS), Department of Education, 2007.

- 42% of schools depend on **boreholes, rainwater or have no access to water on or near site**
- 61% of schools have **no arrangement for disposal of sewage**
- 21% of schools have **no toilets on site or have more than 50 learners per toilet**
- Of those with toilets, 36% depend on **pit latrines**
- 16% have **no source of electricity** on or near site
- 41% of schools have **no fencing or the fence is in poor condition**
- 93% of schools have **no libraries or libraries are not stocked**
- 88% of schools have **no laboratories**, or laboratories are not stocked
- 81% of schools have **no computers** or more than 100 learners share a computer
- 62% of schools have a **learner educator ratio** that exceeds 30.

12.7 These **problems cannot be addressed through outsourcing and tenders**; which sap away resources from the state through profit-making, do not guarantee local procurement of inputs into infrastructure development and do not guarantee decent work. We therefore are of the view that the state should bear direct responsibility in addressing these challenges. Our policy proposals are:

- **On Access and Equity:**
 - A progressive introduction of **universal free education**, including FET and first-degree university levels
 - **Put more resources in Early Childhood Development**, especially in poor and working class communities, in order to build a strong foundation for quality feed-through throughout the system
 - Address **infrastructure and resourcing backlogs** in schools located in poor and working class communities
- **On improving the quality of jobs:**
 - **Reduce classes to manageable sizes** across the system: a learner-educator ratio of less than 20 should be targeted over the

medium term. This requires the employment of a large number of additional teachers, and building of classrooms.

- Appoint **ABET educators on a permanent basis** and clarify their bargaining status
 - **Reduce administrative work of teachers** so that they focus on teaching and learning
- On creating **decent work**:
 - Expand **Early Childhood Development**
 - **Implement norms and standards** for school support staff: By resourcing the education system with adequate administrative support
 - **Auxiliary services**, such as social workers and psychologists, should be extended to the school level¹⁰⁰
 - **Maintenance and expansion of school infrastructure** should be the direct responsibility of the state through the **ELR programme**
 - On improving the **quality of education**:
 - Streamline the **Integrated Quality Management System (IQMS)** and re-orientate the system towards teacher development. The IQMS must:
 - Appraise teachers,
 - Identify weaknesses
 - Provide development, mentoring and support to improve the quality of teaching in the classroom
 - On **teacher development**:

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The extension of computer laboratories and libraries will create in excess of **80 000 direct permanent jobs for librarians and computer teachers**. This does not take into account jobs created for maintenance of computers, and the fact that many schools have to be wired on the internet and must have TV's. If we reduced the learner-educator ratio to 20, from the average of 30, **at least 210 000 more educators** would have to be trained. This is a long-term goal. This does not include the need to build more schools, address equipment shortages, furniture shortages, expand and re-capacitate colleges and their associated support staff complement.

- Create **teacher development institutes** as centres of training, development and support, in line with re-opening colleges
 - Create a **robust system of teacher development** based on two pillars: a) teacher appraisal to identify weaknesses and b) support, training and mentoring
- On **higher education**¹⁰¹:
 - **Return the FET sector to the state**, and ensure that profit-making does not drive the education system
 - **Integration of the college sector**, and ensuring that standards and norms are set for the sector
 - Institute a **collective bargaining unit for higher education**, including the regulation of executive pay in the sector
 - Address the **problems of academic and financial exclusions**— provide ring-fenced financing of bridging programmes, with clear targets and outcomes
 - **Curriculum review** to ensure that the system is socially and economically relevant, including introducing a national service component and linking the system with the broader skills development and training system
 - Set **clear transformation targets and outcomes**, with sticks and carrots, with respect to race, gender and class background of students; ensure that the system administration is aligned with the national transformation agenda
 - Set targets for the **composition of graduate output across disciplines**, with sticks and carrots
 - Eliminate **outsourcing, casualization and the use of labour brokers** by higher education institutions in the provision of support services

12.8 In implementing the new growth path, there is a need to **make education a social priority** through active participation of communities, learners, and all stakeholders in the Quality Learning and Teaching Campaign:

- All stakeholders (learners, educators, unions, communities and

101 See Resolution 2.8, COSATU 10th Congress.

the Department) must identify their responsibilities and commit themselves to a strict code of conduct. The **Education Alliance**, which consists of communities and parents, unions and the Department must be used to raise awareness and support for the Quality Learning and Teaching Campaign

13. Healthcare

13.1 The mandate given to the ANC in the next five years includes the 10 Point Plan to transform the South African health care system, the centrepiece of which is the implementation of the National Health Insurance (NHI). **COSATU supports the 10 Point Plan** that has been proposed by the Department of Health¹⁰². Nevertheless, there is a need for the advisory committee on NHI to urgently conclude on path of transition towards the NHI, and mandate the National Treasury to translate the commitment to the NHI into Rands and Cents, by making the necessary budgetary allocations to phase in the system.

13.2 The key **challenges facing the healthcare sector** are:

- **Staff shortages:** This factor plays a significant role in mortality rates in hospitals
- **Availability of medicines**, including improved efficiency in the link between warehouses, hospitals and clinics
- **Infrastructure backlogs:** The need to extend physical infrastructure, including beds and linen
- **Inadequate systems**
 - ICT
 - Management
 - Administrative support
- **Availability of equipment:** some provinces do not have equipment to treat certain conditions

13.3 These challenges have generated the following negative outcomes¹⁰³:

- **Maternal mortality** has increased from 81 to 600 (per 100,000) between 1997 and 2005. The MDG target is 38
- **Child mortality** has been on the decline, but remains high at 68 (per

102 See Budget Review 2010, National Treasury, p.114.

103 Secretariat Report to COSATU CEC, 01—03 March, 2010, based on presentation by J. Naidoo of the DBSA. The Secretariat report states: "South Africa's death statistics, with the young and working age dying in droves, resembles a country in a terrible war".

1000 live births)¹⁰⁴, yet a comparable country Brazil, has reduced this figure from 58 in 1990 to 22 in 2007

- There are **1000 AIDS-related deaths per day** (and another 1,450 people becoming HIV infected each day)
- **70% of the case load in the public health system is now taken up by HIV/ AIDS cases**, crowding out the capacity to treat other medical conditions. Moreover, while we seem unable to treat more than half the 800,000 needing anti-retroviral treatment, that number is going to rise to 5,5 million within five years (these are people already HIV infected who will reach full-blown AIDS).
- **There is a disconnection between national policy and the allocation of resources**, management information systems are insufficient for decision-making, and decision-making powers are generally incorrectly located (a hospital CEO doesn't meaningfully control staff, budget or procurement).
- **Under-regulation of the private health sector and over-concentration of resources**. There is clearly insufficient regulation of the private sector, though even this profitable sector is facing serious challenges.

13.4 As noted above, COSATU supports the 10-Point Plan of the Department of Health. Nevertheless, **we propose** the following interventions to be integrated in the implementation of the Plan:

- A heavy **focus on HIV and AIDS**; in collaboration with the Departments of Basic and Higher Education
- Integrate **Community Care Workers** into the public service
- **The state should lead the process of training**, particularly the training of nurses and doctors and resist the incursion of the profit motive in the process¹⁰⁵
- Ensure that the **Department of Health establishes a Nursing Directorate** nationally and provincially to drive the implementation of the Nursing Strategy, co-ordinate and manage nursing services and to strengthen the South African Nursing Council to be an autonomous professional institute¹⁰⁶
- **Increase the Nurse/people ratio** from 4 (per 1000 people) to 8 per 1000 and the ratio of **physicians to 1000 people** to 1 over the short to medium term from the current 0.69¹⁰⁷

104 See Development Indicators 2009, the Presidency.

105 See Resolution 2.4 (k), COSATU 10th Congress.

106 See Resolution 2.4 (o), COSATU 10th Congress.

107 This will require at least **200 000 additional nurses** and at least **15 500 additional physicians**. This excludes the need to build additional clinics and hospitals.

- Improve the **administration**, especially:
 - **Increase administrative staff** and improve efficiencies
 - Set up an **ICT system** for efficient record keeping and information flows
 - Improve **medicine delivery systems to patients**, especially those with serious and terminal illnesses; taking medicines where they stay
 - Strengthen **community and worker participation** in governance structures
 - Review the pay structure, conditions of employment and career development in the health system to address the problem of **skills flight**
 - Give hospital management the necessary authority to run hospitals effectively
- The state should establish a **pharmaceutical company**, to ensure the availability of affordable essential medicines
- In the expansion and upgrading of infrastructure, **the state should minimize and where possible eliminate the profit motive**, build internal capacity and should reverse reliance on Private-Public Partnerships
- **Reverse the process of casualization of support staff, outsourcing and the use of labour brokers** in the healthcare system—these do not support decent work and do not facilitate skills development and career development
- **Build the capacity of clinics** to successfully deal with health problems, as a means to minimize referrals and thereby reduce the burden on hospitals
- **Ensure that clinics and hospitals** have reliable back-up energy support and have a focused renewable energy initiative

13.5 The backlogs in the health system require a well-thought out strategy in which the direct creation of decent work to deliver quality health care and to expand access is a priority. In addition, the strategy should clearly articulate with industrial policy, and thus contribute to the promotion of the industrial structure that is proposed in the new growth path. Specifically, because healthcare is one of the principal human rights and should not be subjected to profiteering, we propose that the state builds **partnerships with co-operatives as far as possible.**

14. Housing

- 14.1 The RDP called for broader community participation in the setting of standards and norms for the provision of housing. This process was supposed to inform the design and structure of public housing to be socially responsive. The patterns of housing must respond to the pattern of demographics, family structure and size, culture, weather and so forth. The current housing structures, particularly the ones located in urban areas, violate these aspects in various ways. For example, the number of rooms is not sufficiently matched to average family size. This leads to over-population and the erection of shacks to supplement the RDP brick structures.
- 14.2 The RDP set out the principles that should guide housing delivery as follows¹⁰⁸:
- As a minimum, all housing must **provide protection from weather, a durable structure, and reasonable living space and privacy**
 - A house must include **sanitary facilities, storm-water drainage, a household energy supply** (whether linked to grid electricity supply or derived from other sources, such as solar energy),
 - Convenient **access to clean water**
 - Moreover, it must provide for **secure tenure in a variety of forms**. Upgrading of existing housing must be accomplished with these minimum standards in mind
- 14.3 It is the first of these points that is of major concern here. The fundamental problem with the process of housing delivery of the past 16 years is that in general, public **housing has been driven by tenders**. This basically places the provision of housing at the mercy of the economics of profit maximization¹⁰⁹:
- Firstly, this produces **materially sub-standard houses**. For example, insufficient cement may be used to erect an RDP housing structure.
 - Secondly, it generates **a-typical work**, which violates the advancement of decent work
- 14.4 The RDP gave a clear **directive on how the process of housing delivery is to be managed**¹¹⁰:
- The **building materials industries** must be examined, both to improve productive output and to reduce costs

108 See the RDP, point 2.5.7

109 See the discussion on the Role and Character of the State in Section 5, the link between BEE and white capitalist accumulation in this regard.

110 See the RDP, points 2.5.19 and 2.5.20.

- **Cartels**, price agreements and market share agreements must end
- Consideration must be given to **public, worker and community-based ownership** where the market fails to provide a reasonably priced product
- **Community-controlled building materials suppliers** must be encouraged, possibly with government subsidies to enhance competitiveness
- An enforceable **Code of Conduct** must be established to guide developers
- Special funds must be made available to support **small and medium-sized enterprises**
- Resources should be provided in the form of **loans for bridging finance, and grants for training and entrepreneurial development**

These directives were implemented **selectively, half-heartedly and in an uneven manner**, leading to an incoherent process of housing delivery and the influx of profit-making into the process.

14.5 Despite the political commitment to break **the legacy of apartheid planning**, which sought to bring affordable housing closer to places of work, very little has changed. The process was itself profit-driven, making it unaffordable for the majority of the working class. The adoption of inappropriate policies, lack of access to land and the incapacity of the state to expropriate land for the purposes of eliminating apartheid planning have contributed to stagnation of progress on this front. Combined with the explosion in the property market, these factors have driven the working class further away from places of work.

14.6 The housing problem cannot be addressed in isolation from the broader social and economic problems. In the past 16 years, **state policy has failed to:**

- Address the causes of urban **in-migration from rural areas**: which has been brought about by uneven and combined social and economic development and the expulsion of workers from farms
- Eliminate **informal settlements**: which make the working class vulnerable to diseases, overcrowding, and lack basic services, which in turn influences, for example, education outcomes
- Combat **unemployment**: which has been found in many studies to contribute towards inability of households to afford basic services and

to increase crime, substance abuse and vulnerability of women to HIV/AIDS

- Promote **decent work**: the growth of precarious work, especially among women and young workers, has led to an increase in the working poor, who cannot afford basic services and who do not qualify for social grants
- Provide real **universal access to basic services**: communities experienced cut-offs and disruptions over the past 16 years
- Involve **communities in housing delivery**, thereby giving way to profit-making
- Address the question of **land-hunger**, which heavily impacts on housing quality

14.7 In the light of these failures, we propose the following interventions¹¹¹:

- The state should lead housing delivery, and must **minimize the profit motive in housing delivery**
- The **state must directly provide** both public rental and purchase options for housing
- The establishment of a state **Housing Parastatal** to co-ordinate housing delivery and build well-located public housing
- A **5% prescribed asset investment and levy on companies** dedicated towards housing
- Transform the **National Housing Finance Corporation** to publicly finance low-cost and medium-scale housing, and thereby increase state involvement in housing finance¹¹²
- The establishment of **housing brigades** in communities, **as part of the ELR programme**, to fast-track housing delivery and to create decent work
- **Expropriate land** to address the housing backlog, whilst removing the “willing-buyer-willing-seller” principle

111 See Accelerating Transformation, COSATU, 2000, p. 58.

112 We thus differ with policies that rely on private sector leadership to address the problems in mortgage markets, including subsidies and guarantees. The state must instead, play a leading role in the mortgage sector.

15. Basic Infrastructure

- 15.1 The RDP places the provision of **basic services at the heart of decent housing**. Basic infrastructure is critical for lifting poor households out of poverty and provides the necessary conditions for the transformation of social relations. For example, it is well known that, in the absence of basic infrastructure, rural women and girls bear the brunt of being “hewers of wood and drawers of water”, when they could be engaged in empowering activities such as education and enterprise.
- 15.2 There are major backlogs in the provision of basic services, especially infrastructure. Whilst this situation is part of the legacy of apartheid and the short-termist policies of the past 16 years that have failed to provide to secure our country’s future; it also offers an excellent opportunity to turn unemployment and inequalities around. **These policies have condemned the vast majority of the people to conditions of squalor, over-crowding, poverty and depressed economic activity**. In line with the RDP, in 1996 the labour movement proposed public works and mass housing as the starting point of the path to job creation¹¹³. At the centre of our job creation strategy was, and continues to be, **decent work**.
- 15.3 A common theme that we will continue to underline in this document is that **the crisis of social and economic infrastructure is the crisis of apartheid and neo-liberalism**. The alliance between black capital and white capital is the basis of the state’s withdrawal from directly providing infrastructure for basic services on a non-profit basis. In short, it is the incursion of profit-making through tenders, the fiscal austerity measures dictated by neo-liberalism, and the continued dominance of conglomerate interests in policy-making which have brought the infrastructure crisis upon us.
- 15.4 This, of course, **does not mean that nothing has changed for the better in the past 16 years**. But in comparative terms, when we take the issue of redistribution seriously, a group of class oligarchs have benefitted far more than the vast majority of South Africans. Indeed in a number of aspects, there has been progress between 1994 and 2009¹¹⁴:
- Households with access to potable water: an increase from 64% to 97%
 - Households with access to electricity: an increase from 51% to 73%
 - Households with access to sanitation: an increase from 50% to 77%
- 15.5 Then comes the issue of **affordability and access**. The labour movement has always and consistently noted the fact that Free Basic

113 See Social Equity and Job Creation, 1996, p. 11.

114 See Development Indicators 2009, the Presidency.

Access to these essential services is not adequate. As we have noted **5 million people experienced cut-offs due to non-payment**. The reasons are straightforward: 71% of African female-headed households and 59% male-headed households earn less than R800 a month and 48% of female-headed households have no income at all. As noted by the Taylor Commission, unemployment-induced poverty is the dominant form of poverty in South Africa. The working poor, the “missing middle” of the grant system, now suffers under the yoke of bad pay and cost-recovery policies. This problem has already been acknowledged by the 15 Year Review, but no shift in policy has occurred

15.6 Besides the problems of access and affordability, serious problems afflict social policy. Major challenges centre on the provision of **water, electricity and transport infrastructure**.

15.7 **On Water and Sanitation:**

- **There is insufficient water network coverage:** The average water network density is just less than one station per 1500 km sq. This is considered inadequate for a country like South Africa with water challenges, one station per 1000 km sq. is considered to be more appropriate¹¹⁵
- **Insufficient Free Basic Water:** 76% of municipalities have implemented the free basic water policy and supply 0-6kl of water per household free of charge to cater for the poor¹¹⁶, however this is insufficient to address the basic needs of poor households
- Water **tariffs are unaffordable to a large section of the working class**, especially those who are engaged in precarious and badly-paid work—the working poor
- **The massive infrastructure backlogs:** Major capital investments in the water sector were last seen in the 1980's. It is estimated that the **replacement costs of poorly managed infrastructure would amount to R6.4 billion**. Every year, **R4 billion will be required over the next 30 years to renew or rehabilitate water infrastructure**, the bulk of this being on canals and tunnels, which mainly supply irrigation. This is **R120 billion without interest**. If rural development is to be achieved, then these costs and infrastructure interventions have to be budgeted for now, before the deterioration of existing infrastructure accelerates.

115 See the Freshwater Country Profile, South Africa, United Nations Report, 2003.

116 Freshwater Country Profile, South Africa, United Nations Report, 2003.

15.8 On Electricity

- Despite progress in the provision of electricity infrastructure, a **significant part of the population is still without electricity**. The percentage of households not electrified by province is: Western Cape 14%, Northern Cape 18%, North West 22%, Gauteng 24%, Free State 25%, Mpumalanga 26%, Limpopo 26%, KwaZulu-Natal 34% and Eastern Cape 40%. The national percentage of households not electrified is 25%. Total number of household backlogs is 3.5 million.
- **Firewood is still an important source of energy**: of those that are electrified, 25% use firewood for cooking and of those that are not electrified, 53% use firewood for cooking; some of our people (2% of households) still use **animal dung** as a source of energy.
- Over and above these problems, **infrastructure backlogs** exist in the sector: What we know is that an estimated **R 343 billion** has been made available to fund new power stations to deal with power shortages.¹¹⁷

15.9 On Transport Infrastructure:

- **58%** of South African roads are **gravel**¹¹⁸
- Under-utilization of rail infrastructure: **Only half of the nation's 20 000 kilometers of track is utilized**, and some 35% of the nations track carries no activity or very low activity
- **There are infrastructure backlogs here too**: Government has promised to invest R 19.5 billion a year over the next four years on upgrading its ports and rail infrastructure. On infrastructure cost: A recent Automobile Association report stated that 70% of South Africa's roads were in need of urgent repairs that would cost R 65 billion¹¹⁹. These expenditures do not include other aspects of improving public transport infrastructure.

15.10 In the light of these challenges, a question arises as to **where the resources to meet these challenges would come from?** It is such considerations that raise the need for a thorough-going redistributive programme in which the state intervenes and lead the process of provision of basic needs, social and economic infrastructure on a non-profit basis.

15.11 **Our proposals** to address these problems are that the state must:

117 South Africa Infrastructure Report, Swiss Business Hub South Africa, 2009.

118 National Department of Transport, Road Infrastructure Strategic Framework for South Africa.

119 South Africa Infrastructure Report, Swiss Business Hub South Africa, 2009.

- Increase capacity to **directly deliver basic infrastructure**, minimise or even eliminate the profit-motive in the direct provision of these needs
- **Mobilize communities**, community-based organizations and unions to identify areas of priority in each community
- Create decent work in the provision of social infrastructure
- Put **strict controls to ensure that the sectors that underpin this growth path benefit** and in the process build capacity, to deliver the required inputs
- Build capacity in the **Competition Commission** to combat collusion, market-sharing and import-parity pricing of critical inputs in the value-chain
- Support **SMME's and co-operatives** as critical vehicles to deliver certain inputs to the infrastructure development programme
- **Scrap the cost-recovery policy on basic needs**, and promote cross-subsidisation between industry and households, among industries, and among households
- **A review of the quantity of free basic services** will have to be undertaken, informed by the concrete socio-economic conditions of the working class and poor households¹²⁰
- **Expand the public transport system**, with a view to lowering the costs of living and to revitalize rural economies. The state must:
 - Take leadership and strategically use the revitalization of rail infrastructure to **build a spatially inclusive economy** that revitalizes rural economies and economies surrounding small towns, not just links between rich cities
 - **Set targets** for the distribution of transport between rail and road thereby using public transport in order to ease congestion and reduce the rate of depreciation of the road network
 - Make **public transport affordable to the elderly** and those that rely on state social protection measures through a targeted subsidy.

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See Resolution 9 Cluster 3, COSATU 8th Congress.

16. Social Protection

16.1 **The Basic Income Grant** is an important component of social protection measures. It needs to be conceptualized as part of redistributive, employment-creating and social protection system that stands side-by-side with the ELR, Child Support Grant and Old Age Pensions. Social protection measures are measures directed at addressing:

- **Income poverty:** lack of income
- **Asset poverty:** lack of assets from which people can generate income, e.g. land, equipment and buildings
- **Capability poverty:** lack of education, health, skills, etc.¹²¹

16.2 This is not the place to list all the benefits of the Basic Income Grant, but a few points are important to mention¹²²:

- **A BIG must be inflation-linked**, based on the basket of essential goods mostly consumed by poor households
- A BIG will play an important role in the **fight against HIV/AIDS**, because it allows for those infected by HIV to be able to buy healthy foods
- A BIG is **an important and progressive redistributive tool**, because it helps alleviate the “poverty tax” that is currently being levied on the working poor¹²³

16.3 In Section 9, we proposed an employment guarantee programme, the ELR, as a means to deal with unemployment. **It is important to clarify the link between the ELR and the BIG.** The two ways of fighting poverty and unemployment must be seen as complementary and not in opposition to each other. The ELR is not “forced labour” in the ordinary sense of the word, but it is a voluntary programme for those willing and able to work.

16.4 **The ELR is a flexible programme that has to work hand-in-hand with other social protection measures.** If a person e.g. wants to pursue studies, the BIG and other measures must be made available for such a person to be able to pursue their interests. Another example, if it happens

121 See Taylor Committee of Enquiry

122 For further details on the BIG and its financing options, see “Breaking from Poverty”: Financing a Basic Income Grant in South Africa, BIG Financing Reference Group, Black Sash, March 2004.

123 The Black Sash report defines the “poverty tax” at the burden borne by the working class when they support the unemployed, because South Africa does not have a comprehensive social security system.

that a woman gets pregnant and happens to be in the ELR, she should have available other social protection measures to support her during the time she is unable to work. We therefore agree with the Black Sash Reference Group, that those who seek to pose the ELR in opposition to the BIG are playing a conservative game.

16.5 Over the past 16 years, **the state's approach to social protection has been fragmented and narrow**. The state focused on traditional social support measures such as:

- Child support grants
- Old age pensions
- Income support for those that could not work because of sickness

Generally, the argument is that the problem of poverty is due to poor people, who must be skilled in order to be employable. **We obviously differ with this view.**

16.6 As noted in Section 2, almost 25% of South Africans now live off these government grants, but the rate of poverty reduction has been very minimal. In addition, a recent study at the University of Cape Town has found that **two leading reasons behind child mortality are HIV/AIDS and malnutrition**. The two are interrelated because a malnourished child is not empowered to sustain the immune system against HIV. The BIG could go a long way in lowering this mortality rate, over and above the child support grant.

16.7 **We propose** the following interventions on the social protection front¹²⁴:

- The introduction of **the BIG**, as an important part of the social protection system
- The introduction of **a comprehensive social security system**, whose critical element must be **redistribution**
- Funding for such a system should be through the tax system, by **raising the tax/GDP ratio to 30% and corporate taxes**, whilst retaining progressivity
- The **zero-rating of essential items** for poor households and the working class, especially staple foods, must be introduced, and combined with the food for all programme

124 See Resolution 5 Cluster 3, COSATU 8th Congress and Resolution 2.21 COSATU 10th Congress.

- Beneficiaries of social protection measures should have **access to adequate free basic services, including public transport**
- **The state must extend home-based care**, and integrate such community workers into formal public service employment so that social protection is linked with **decent work**

17 Green Jobs and the Environment

17.1 There are 4 key areas in which Green Jobs can be created from a social policy point of view, these are:

- Recycling
- Household Energy Sources
- Environmental Management
- Protecting Our Water Systems

17.2 The **principles** that should drive a social programme for environmental sustainability must include:

- Community involvement
- Direct state involvement and leadership
- A strong orientation towards **building community institutions and physical infrastructure**

17.3 Currently, there is no coherent social policy that addresses issues of environmental sustainability. Specific issues include:

- **Recycling:** Currently, recycling is mainly undertaken on an informal basis. It is estimated that South Africa recovers 67.5% of its cans, 51% of its paper, 25% of its glass and 17% of its plastics through recycling¹²⁵. Nevertheless more can be done by the state making the necessary infrastructure available at community level, where people can dispose specific items in the correct bins. Furthermore, there is a need to **formalize recycling**, so that it creates sustainable and decent employment for communities.
- **Households still use firewood and coal:** We have noted that of those that have access to electricity, 25% use firewood as a source of energy. Firewood is also a major source of energy for those without access to electricity. **We suspect that this continued use of firewood by those with access to electricity is due to the affordability problem.** The cost-recovery system, typified by the use of pre-paid meters, leads households to continue using coal and

125 See: Guide to Recycling in South Africa, Treevolution.

firewood for cooking and heating (with their polluting consequences), because heaters and stoves consume a lot of electricity.

- **Ground water pollution:** Ground water pollution affects the quality of the soil and the ability of the soil to produce food that is suitable for human consumption. Ground water pollution, especially when it carries heavy metals and radio-active material, can lead to excessive contamination of vegetables, fruit and meat, thereby rendering agricultural activity dangerous and unsustainable. In turn, this will have a massive impact on the capacity of local communities to earn income and to sustain their livelihoods. Ground water pollution can also be brought about by lack of social amenities, such as flush latrines and the sprawling of illegal dump sites.
- **Open water pollution** is also a serious problem that is brought about by ground water pollution, industrial discharges into open streams and rivers and unsustainable human settlements. Indeed, according to a booklet by Rand Water, the state of the river that runs through a community is a reliable indicator of the socio-economic conditions of the community. This shows that improving **socio-economic conditions**, especially human settlements and provision of affordable basic goods and services, would go a long way in addressing environmental issues arising from human settlements.
- **Dealing with soil erosion:** It is estimated that 70% of South Africa's land surface has been affected by some type of erosion. Former Bantustan areas are the most affected because of lack of bulk infrastructure, especially rain water catchments and trees, which minimizes soil and wind erosion. It is further estimated that 60% of Limpopo and the Eastern Cape is exposed to soil erosion, but the same could be said about former Bantustans in general.

17.4 In order to address the problem of environmental degradations and to create Green Jobs, **we propose:**

- **Scaling up programme of community awareness** about environmental sustainability: This should involve mobilizing communities through events, where communities that have performed excellently are rewarded, or given incentives in order to encourage other to do the same.
- **Build and work with community-based organisations:** Having structures on the ground that have the capacity to monitor micro-level changes in bio-diversity, water quality and the overall environment, is important to alert the state about the need to urgently intervene before the problem gets out of hand. Furthermore, community-based organizations can assist in the maintenance of community awareness and in ensuring that individual households within communities are assisted to contribute towards environmental sustainability.

- **Meeting basic needs and provision of basic services on an affordable basis.** This means that state needs to roll-out infrastructure: both bulk infrastructure for water and sanitation, and infrastructure that would make it easy for households to contribute towards recycling.
- **Formalization of the recycling activity:** This could create decent work, currently collectors of recycled materials are exposed to health hazards because they collect recycled material from illegal dumps and dust-bins, which may emit hazardous gases.
- **Get rid of pre-paid meters and the cost-recovery system and instead apply cross-subsidies:** To ensure that households fully enjoy access to electricity, and that electricity contributes towards saving our trees, we need to get rid of pre-paid meters and abandon the cost-recovery method of financing basic needs. Instead we need to apply a cross-subsidisation strategy, whilst at the same time improving the socio-economic conditions of working class and poor communities, and increase their awareness about the use of energy, environment and water.
- In rural areas, setting up and **revitalizing the national irrigation system**, ensuring the state leads in its maintenance through mobilization of conservation and agricultural corps is important. The state could help in managing the use of fertilizers and pesticides, especially for co-operative and small-scale farmers. Ground water pollution also comes from the inappropriate use of irrigation systems, fertilizers and pesticides. Maintenance and management of such systems needs to be conducted by the state, perhaps through the Rural Development Institute proposed by the Department of Rural Development and Land Reform and the Department of Agriculture.
- **Build physical infrastructure to combat soil erosion:** Soil erosion, especially in former Bantustans is partly a result of lack of physical infrastructure. Community organizations, working in partnership with local government can identify priority areas where infrastructure can be built to arrest soil erosion. This would create decent work in these areas, especially because this infrastructure will have to be maintained.

18. Crime, Corruption and the Justice System

- 18.1 Whilst acknowledging the priority to fight against crime and corruption, it is important to note that there is a need to consider **broader co-ordination between and within different institutions making up what is called the Criminal Justice Cluster System**. In other words, while looking at the need to create safer communities (particularly for women and children), it is necessary to look at other sectors in the cluster, which include:

- The judiciary
- Correctional services
- Getting communities more involved in dealing with crime

18.2 There are a number of **challenges** that have to be address in the cluster:

- **There is insufficient and inequitable resourcing across the criminal justice system:** There is generally an unacceptable ratio of police per population. Given the challenges that the country faces, fuelled by high unemployment, a ratio of 2.7 police per 1000 is not adequate. In some areas, there is not enough equipment, e.g. police patrol cars and vans.
- **There is lack of collaborative relationship** between the different sectors in the cluster, which also relates to the fact that certain law enforcement agencies (including the Criminal Record Centre and the Forensic Laboratory) are uncoordinated and operate autonomously – often leading to lack of evidence inadequate resources, e.g. fingerprint expertise, delayed cases and missing documents.
- **The process of rehabilitation of offenders** also becomes a significant challenge in the fight against crime. The Department of Correctional Services should face some of the challenges relating to:
 - **Over-crowding and under-staffing** in prisons: Some prisons operate 277% above capacity
 - **Sexual offences** (leading to HIV/AIDS) in prisons
 - The safe custody of **juvenile offenders**
 - The eradication of **gangsterism in prisons**

Because of these challenges, the process of **rehabilitation is reversed**, and released prisoners become more violent rather than rehabilitated because of these experiences in prison

18.3 **Key priorities** that need to be addressed in this cluster include:

- The reduction of **overcrowding of prisons:** In 2004, prisons were operating in excess of capacity by 61%. In some places, prisons were operating at far higher levels; Durban Medium C was in excess of capacity by 287% and Umtata Medium was 277% above capacity¹²⁶.

126 See Prison Overcrowding and the Constitutional Right to Adequate Accommodation in South Africa, J. Steinberg, Centre for the Study of Violence and Reconciliation, 2005. This means that Umtata and Durban need 3 more prisons, by Department of Correctional Service's standards. In fact, the study proceeds to show that during democracy, the prison population rose by 58% compared to the figure in 2003. We thus eagerly await the report and recommendations of the

- Improved **working and prison conditions and address under-staffing**: In **1996 the prisoner warden ratio was 5.5**, which was estimated to reflect under-staffing by “developed” country standards. **In 2006 the ratio had slightly fallen to 4**. However, there is massive variation across prisons. In **Mogwase, Pretoria Central and Lichtenberg the ratio exceeds 15**¹²⁷.
- **Improve systems**: ICT and administration for effective data capturing, analysis and monitoring. The Minister has identified this as a matter that requires urgent attention because currently, for example, it is difficult to assess the number of women who gave birth in prisons, prisoners who are mentally disturbed, are HIV infected and thus require proper medication, etc¹²⁸.
- Eliminate **Private-Public Partnerships** in the operation of prison facilities
- The development of a policy on **HIV/AIDS**: Overcrowding increase the probability of violence and rape in prisons and also allows for communicable diseases such as TB to be easily spread. It was estimated in 2006 that **HIV prevalence in the South African prison population is 45%**, second to Malawi at 75% in Africa¹²⁹.
- **A review of the rehabilitation perspective** of the criminal justice system: In 2004 the rehabilitation process was overly biased towards spiritual care and social work sessions, which both claimed 85% of participation by prisoners. **Training and education programmes reached only 12% of the prison population**. Of the existing posts by for educationists in the Department of Correctional Services, 33% were unfilled. In those provinces where there are facilities for the provision of formal education, each educationist confronts on average, 211 sentenced offenders¹³⁰.

18.4 **Our proposed interventions** are that there is a need to¹³¹:

- **Increase resourcing of the police service and transform the training component** of the whole criminal justice system in terms of culture, methodology and content. Move away from militaristic and authoritarian behaviour towards a more socially-oriented approach. This will ease the burden faced by police, improve working conditions

3-member task team set up by the Minister to look at overcrowding.

127 See: The Relationship Between Assault and Overcrowding in South African Prisons, Civil Society Prison Reform Initiative Newsletter, 2007.

128 See: Minister Deploys Task Team on Overcrowding, SA Corrections Today, February—April 2010, p.6.

129 See: HIV and Prisons in Sub-Saharan Africa, UN Office on Drugs and Crime, 2007.

130 See: Offender Rehabilitation in the South African Correctional System: Myth or Reality, C. Cil-liers and J. Smit, Acta Criminologica 20 (2), 2007.

131 See COSATU Submission to the Public Sector Summit, 2010.

and make it possible for communities to actively participate in crime-fighting initiatives.

- **Strengthen institutions, especially community policing forums:** These forums can be used to mobilize young people and as transitional structures to train young people into the police and criminal justice system, or to offer incentives for them to train in various areas that are needed by the developmental state.
- **Improve service delivery** through capacity building which will include the following:
 - Increased **public awareness** around crime prevention and combating
 - Recruiting, attraction and retention of **highly skilled personnel** in departments within the Justice Cluster to deal with, for example:
 - Fast-tracking of cases
 - **Sentencing of offenders:** Between 1995 and 2001, the number of unsentenced prisoners rose to 176% from 22 282, and have since declined to 48 306 in 2004¹³²
 - **Rehabilitation of offenders and combating of repeated offending behaviour:** The failure of the rehabilitation process is reflected in estimates of repeat offenders as a proportion of the prison population. It is estimated that this could be as high as 94% of the prison population¹³³. Rehabilitation must be linked to employment opportunities through:
 - **A structured social-reintegration system:** when an inmate completes a sentence, they must be linked to the **employment guarantee system**, which offers prospects for further training and skills development
 - **Rehabilitation should be bias towards skills development, training and education.** This means prisons should have the necessary infrastructure to provide these basic services
- **Skills development and training of staff**, particularly on:

132 See Prison Overcrowding, J. Steinberg, 2005.

133 See Offender Rehabilitation, Cilliers and Smit, 2007.

- Statement taking and writing
 - **Continuous proficiency testing** of employees to identify skills gaps
 - ICT training and upgrading
 - Allow for skills and **information flow between prosecutors and investigators**
 - Career-pathing
- In terms of **institutional development**, there is a need to:
 - **Streamline the law-enforcement agencies** and consolidate them to reduce their proliferation and improve co-ordination
 - Speed up the **de-centralisation of Forensic Unit**
 - Strengthen and improve the **witness protection program, parole, community re-integration and restorative justice system**
 - Emphasis must be put on **combating corruption** in the system
 - **The structures of Criminal Justice Cluster System must be aligned**, viz., police, justice, and correctional services to municipal boundaries
 - There should be **a smooth handing over of work**, from the police to justice and corrections without any blockages
 - **Community Safety Forums must be established** to monitor and coordinate the functioning of the Criminal Justice System at all levels, i.e. monitoring mechanisms system should cover the whole investigative and the prosecution process
 - Encourage **community participation** on parole boards, rehabilitation and re-integration initiatives as means to increase capacity to deal with rising volumes of the prison population
 - **People that display consistent commitment and diligence in community policing forums must be given guaranteed options** for further skills development and

training, employment and career options must be made available for them, this will be particularly important for young people

- **Strike a balance** between sentence length, paroles and alternative measures and the need to maintain the integrity of the justice system

The system of monitoring the cases will lead to the police, courts and the prosecutors concluding the cases within a required period without any delays.

- Reverse the introduction of **Private-Public Partnerships, Privatisation of Prisons, outsourcing, casualization and the use of labour brokers** in the system as a means to create decent work¹³⁴
- **A quality management system should be introduced** and adopted by all departments within the Criminal Justice Cluster to ensure that the turn-around time in terms of the whole circle of prosecution, including examinations by the forensic science laboratory, is up to acceptable standards
- **Alternative measures to imprisonment and sentencing** must be considered, especially for petty crimes, this will go a long way in reducing over-crowding and the hardening of criminal attitudes, given current prison conditions¹³⁵
- **Address the failures of rehabilitation**, build capacity for prisons to provide proper education and training to prisoners
- **On HIV/AIDS in Prisons**¹³⁶:
 - Increase the **distribution of lubricants and condoms**
 - **Disseminate information**, education and communication materials
 - Increase access to **ARV treatment**
 - Develop guidelines, and implement them consistently across prisons, for **HIV testing**
 - Improve access of the prison population to **healthcare**, including regular medical check-ups.

134 See Resolution 3 Cluster 2, COSATU 8th Congress.

135 See Resolution 19 Cluster 5, COSATU 8th Congress.

136 These are in line with the UN recommendations.

18.5 One of the scourges that afflict our society is **corruption**. The source of the problem is, and has always been, the capitalist system, whose culture of self-enrichment has led to the obscene levels of salaries, bonuses and perks for top executives, which has led to South Africa becoming the most unequal society on earth.

Corruption therefore is a cancer with its roots in the private business sector, but whose tentacles are reaching into the public sector as well. Corruption is tantamount to stealing from the poor and must be fought wherever it occurs, in the public and private sectors, as well as within our unions. Crass materialism and greed threatens the foundations of our democracy.

Of course the large majority of public representatives and senior officials are honest and dedicated servants of the public and not involved in any form of corruption. But for as long as a minority can get away with corrupt and fraudulent activities, it will undermine public confidence in all officials and the democratic system as a whole.

Notwithstanding the work by government, a danger exist that if the current trajectory continues, is that **the entire state and society will be auctioned to the highest bidder**. Given that state procurement is on a massive scale (over R800 billion for infrastructure over 3 years), failure to deal with endemic corruption would leave us with a huge challenge. Corruption covers a range of activities in society, but the most dangerous is the systematic abuse of access to state power and political contacts in order to accumulate capital illegally. This includes abuse of political influence to corrupt state tenders and procurement processes.

18.6 All these practices have in common the *systemic creation of a network of patronage and corruption* which means that over time no-one will be able to do business with the state, without going through corrupt gatekeepers, who do not merely demand bribes, but systematically leverage their power to control large chunks of the economy. Once this becomes the norm, we will have become a **predator state**. This will spell an end to the democratic project.

18.7 In an effort to combat corruption, the following commitments have been made:

- The development of a framework on post-tenure rules, including a cooling-off period during which public representatives and senior officials will be prohibited from accepting appointment to a board, employment or any other substantial benefit from a private sector organisation that has benefited from a contract, tender or partnership agreement with the public service/state in a process that the official has participated in.
- The stepping up of measures to ensure that politicians do not tamper with the adjudication of tenders; the process of the tendering system is transparent; as well as ensuring much stronger accountability of public servants involved in the tendering process.

- 18.8 Neither of these commitments appears to have been followed up by government with the necessary urgency.
- 18.9 Some of the measures **we propose** should be undertaken to combat corruption are:
1. Building the capacity of extra-state organizations to independently monitor and evaluate the performance of the state in the delivery of basic goods and services and in the use of state resources.
 2. **Limiting the use of tenders to deliver basic goods and services** and building the capacity of the state to directly deliver these and create jobs.
 3. An **international comparative analysis**, and **broad consultation with the South African public**, will have to be undertaken to guide government on how best to deal with the problem of politicians being in business, or business people being in politics.
 4. **Stricter penalties and fines** should be introduced to deter public servants from using state resources for their own interests.
 5. The creation of a **naming and shaming** list that is easily accessible to the public should be expedited.
 6. Rooting out **corruption in the criminal justice system** by improving the capacity of the Independent Complaints Directorate to speedily investigate cases and fast-track prosecution
 7. **Black-listing companies and individuals** that have been found guilty of corruption
 8. Strengthening the **protection of whistle-blowers**
 9. Instituting targeted **lifestyle audits**

PART IV FORMS OF OWNERSHIP AND CONTROL

19.1 The Report of the Workshop on Economic Policy for a Post-Apartheid South Africa (1990), states a very clear conception about the role of the state. It is under the section dealing with “Conglomerates and Foreign Investment”, where issues of “**ownership and nationalization**” of the means of production are discussed. In that section, the Report states:

“The transformation of the economy will require a viable state sector. Nationalization would be an essential part of the reconstruction programme of such a state. The non-racial democratic state would retain existing nationalized industries and would be prepared as a matter of fundamental policy to renationalize privatized assets. Furthermore it would set up new state corporations in areas where necessary...nationalization would be effected through legal and constitutional processes. In addition to these measures the democratic state would also facilitate forms of collective ownership, including co-operatives”.

19.2 Although the Report did not represent the policy positions of the ANC and COSATU at that stage, many scholars believed, and in fact took it as a point of departure that nationalization was the economic policy of the ANC¹³⁷. Nevertheless COSATU was explicit that its policy is that strategic nationalization is a key economic instrument which the democratic state would be able to use, where appropriate. In 1992 COSATU stated **the kind of state that should drive the transformation programme must be mass-based, must enjoy the support of a broad array of social forces at the head of which is, obviously, the working class**. It called for policy formulation and implementation to be driven from below in complement to the democratic state.

19.3 From COSATU’s perspective, some of the principles that must underpin the type of state that should drive the transformation programme, together with the approach outlined in Part I above on the character of the developmental state, include¹³⁸:

- It must be **mass-based**, enjoying the support of the popular classes at the head of which is the working class
- Interventions must be **strategic and within the framework of the growth path**

137 For example A. Habib says: “Nationalization, a cornerstone of economic thinking since the 1950’s, was abandoned within the first year of the organization’s return from exile”. He goes on to argue that even the Keynesian terminologies “disappeared in the organization’s policy discourse by 1993”. See *The Politics of Economic Policy-Making: Substantive Uncertainty, Political Leverage, and Human Development*, Paper to the Political Commission on Social Dialogue, Class Struggle and Capital’s Strategy, COSATU, 2005, p.3.

138 See Economic Conference Report, 1992, p.6.

- The state must be **democratized and restructured** so that it is not used as a means of patronage
- 19.4 In relation to the growth path, the concept of redistribution of power and resources was linked to building workers' power: which is made up of worker control and democracy, and social ownership, of which nationalization is seen as a component. COSATU went on to argue that in terms of the growth path:
- **Basic infrastructure and services should remain in public hands** in order to address apartheid imbalances
 - **Strategic nationalization** should meet three objectives:
 - Stimulate economic growth
 - To determine the strategic direction of the economy
 - To enlarge available resources
- 19.5 One criterion for selecting industries or companies to be nationalized is that certain areas that may have to be addressed would require resources that are under "**natural monopolies**", which the apartheid state had started privatizing. But, as mentioned before, **this does not preclude the state from identifying strategic industries and sectors through which it can influence the direction of the economy**, in line with the framework of the growth path.
- 19.6 It is therefore within this context that COSATU's stance on collective forms of ownership has to be understood. Indeed, **there is ample historical evidence that shows that, properly managed and given clear accountability standards, nationalized firms can deliver great benefits to the country** by making available critical resources for downstream industries, thereby changing the labour intensity of the economy and influencing the structure of industry. Countries like Korea, Taiwan, Singapore, France and the Scandinavian countries to mention a few, all rose on the basis of strong state ownership of strategic sectors¹³⁹.
- 19.7 The schematic view of the type of industrial structure that we seek to build has been presented in **Figure 4, Section 6** and our view of how the pillars of the growth path articulate into a coherent structure is depicted in **Figure 1, Section 4**. **Our identification of candidate sectors for nationalization is thus firmly grounded within our framework of the growth path:**

139 For a sharp and concise review see H. Chang: How to Do a Developmental State, in O. Edigheji (ed.): Constructing a Developmental State in South Africa, HSRC Press, 2010, p.83.

- **Mining:** This sector provides critical inputs and materials. Indeed, the granting of licenses to mine these establishes monopolistic behaviour in pricing and in the decisions of where to supply output and from where to source inputs. Because of internationalization of production, South African mining companies play the role of providing raw material inputs to global value-chains, and domestically to the traditional core Minerals-Energy-Complex Sectors. In this way, downstream industries are starved of critical inputs that get diverted to capital-intensive sectors, or to support industrial development outside South Africa's borders and the region. State ownership or strategic parts of the mining sector, would give the mass-based developmental state political and economic leverage over international and domestic conglomerates, and thereby determine the direction of economic development.

Cosatu will conduct further discussion and research on this strategic ownership

- **Metals and Minerals Fabrication:** Here too, the state has to play an important role, because ultimately the metals and minerals that are fabricated must be directed downstream. Definitely, as has been resolved in COSATU over a number of Congresses, a critical player at this level of activity is **Arcelor-Mittal Steel**¹⁴⁰, but this should not blind us to the fact that we have many metals and minerals that need processing. Therefore the state must cast its net wide at this level. The degree to which this sector will be nationalized must be determined by further research regarding its market structure. However, even if the state co-exists with private capital at this level, there would be a need to impose measures that would ensure that downstream industries are not starved of critical metals and processed minerals.
- **Machinery and Equipment:** At this level, the state must play a role as well; making sure that adequate equipment is supplied to key sectors, such as mining, petro-chemicals, agriculture, etc. This can be done in partnership with the private sector, in which the state leads by providing an over-arching regulatory environment and in which it also has capacity to produce certain critical machinery and equipment. The popular classes cannot simply rely on regulation, because the probability of failure and evasion always exists¹⁴¹.
- **Petrochemicals:** This sector has a large monopoly: SASOL, and already, it was identified by COSATU and the SACP as strategic and therefore needs to be nationalized¹⁴². SASOL produces important inputs for industrial processes, agriculture and construction,

140 See Resolution 2.42 (c), COSATU 10th Congress.

141 An example is the cartelization of the concrete pipes market since 1973 only to be discovered in 2009.

142 See Resolution on Industrial Policy, SACP 12th Congress.

particularly cement production. Besides SASOL also produces fuel, has strategic refining, and controls strategic transport infrastructure for fuel and gas. Sasol also depends heavily on Eskom for electricity supply; its processes are highly energy intensive and it also relies on mining, especially coal mining, as a critical input.

- **Cement Industry:** This sector is dominated by 4 players (PPC, Alpha, Lafarge and Natal Portland), in which each player has significant pricing power. The sector depends on quarrying, which exploits a natural resource. It also depends on the petro-chemicals, heavy machinery and equipment, and energy sectors for inputs. It is estimated that 20—25% of output costs are due to energy consumption. The cement industry provides a critical input to construction, which is a central element of infrastructure development. It is therefore strategic that this sector be brought under public ownership.
- **Forestry:** The forestry sector is important: it provides paper, furniture and inputs to sectors such as mining. The forestry sector consumes large quantities of water, which is exacerbated by the fact that it is based on alien trees. Firstly, because wood and wood products, paper and paper products are crucial for social delivery: e.g. paper and books are critical inputs in the education system and furniture is important for decent housing, etc. Secondly because the sector uses a scarce and critical national resource, the people as a whole must extract maximum benefit from the forestry sector. Private ownership, let alone internationalized ownership, is not in the interest of our national development. The sector is also dominated by a few large firms: Mondi and SAPPI.
- **Pharmaceuticals:** The pharmaceuticals sector is also dominated by a few large players and plays an important role in the health system. In line with the need to address health disparities, a state-owned pharmaceutical company needs to be set up in order to produce medicines on a non-profit basis. This is important especially in the light of the HIV/AIDS pandemic and the vulnerability of the Southern African region to diseases. The state pharmaceutical company therefore puts the democratic state in a powerful position to have impact on the health profile of the Southern African population, not just South Africans and will reduce the vulnerability of the region from being exploited by multinational pharmaceutical companies.
- **Construction:** The state should directly deliver basic goods and services. This means that it should build its capacity to construct infrastructure, public housing, hospitals, schools, clinics, roads, dams, bridges, etc. At this level, the state can co-exist with private construction companies, who can continue their operations by providing construction to private sector firms. But as it relates to

public infrastructure provision, the state must build its enterprises to do the job. This aspect is important because through non-profit-based construction activity, the South African state can make an important contribution to the Southern African region as well.

- **The Financial System:** The banking system can co-exist with a state bank. However the state-bank must clearly provide leadership in financial markets and give effect to the macroeconomic and financial policies of the developmental state. This task cannot be left to private financial markets, because they are unstable. However, **for the state to lead in this sector, it needs to have control and ownership of the balance sheet of the Reserve Bank and primarily use the state bank as a conduit of its policies to the economy as a whole.** The Reserve Bank's accumulation of assets and issuing of liabilities should not be complicated by the fact that, sometime in the future, such accumulations may be appropriated by a few individuals. The democratic state must use all the potential that a state-owned central bank brings in order to address the challenges we face.

There are already established institutions that can also play an important role in financial markets, e.g. the IDC, DBSA, PostBank, National Empowerment Fund, Land Bank, Khula and Ithala. These institutions need to be transformed so as to finance priority sectors, Co-operatives and SMME's at generous interest rates and terms. Nevertheless, these are not deposit-taking institutions and do not create financial assets. In this sense, their transformative capacity relies heavily on injections from the National Treasury and borrowing from the financial sector. The state-bank on the other hand, will have greater flexibility and wider scope to have greater impact on social and economic development. The state bank can make a significant contribution in financing priority sectors, housing, developmental infrastructure, co-operatives and SMME's.

- 19.8 **The growth path will have to promote workers' power, not just in the nationalized sectors, but also in the private sector,** especially in the sectors that underpin this growth path. Sectors that benefit from collaboration with the state, or from state support in getting critical inputs, must in turn be democratic and give critical voice to workers and communities in which they operate, in their governance structure. Such firms are expected to abide by the norms required by this growth path such as: decent work, closing the apartheid wage gap, closing the executive pay-gap, local procurement, co-operative and SMME support, productive BEE support. This should be the basis of the alliance between progressive sections of private capital and the working class, and should form a critical, complementary link between the democratic state and private capital.

- 19.9 **The growth path will support co-operatives.** Co-operatives can arise in manufacturing, e.g. clothing and textiles, agro-processing, electronics, etc. They can also arise in construction and cement production. Co-operatives can also arise in agriculture finance. Wherever co-operatives arise, this growth path must ensure that they have adequate financing, markets, access to inputs and skills. Co-operatives must play a supportive role in the provision of public infrastructure and in the delivery of basic goods and services. In this growth path, it is very important that collective forms of ownership are promoted in order to give economic expression to the mass-based alliance upon which the democratic state will be based.

The trade union movement needs to review the potential for using existing **union investment companies** to create and finance a vibrant co-operative sector. In particular, further research must be undertaken to explore the extent to which workers' funds held by union investment companies, the pension fund industry and retirement funds, cannot be consolidated to create a progressive developmental investment vehicle. In addition, an expert commission must be set up by the labour movement to explore the feasibility of creating a **workers' bank in the next 5 years**.

- 19.10 **SMME support is also another way through which democratization of the economy and redistribution of resources can be effected.** The majority of South Africans have been marginalized from the mainstream of the economy as entrepreneurs, more so because the economy continues to be dominated by conglomerates. Under these conditions, SMME's become the main form of economic activity through which entrepreneurs organize their activities. The new growth path must open opportunities for SMME's to enter value-chains. By controlling decisive sectors of the economy and critical stages of the value-chain, the state must open opportunities for SMME's to participate. Nevertheless, SMME's must also create decent work, whilst the state offers them support through generous financing, access to markets and inputs, and technological improvements through R&D. The state's initiative to support SMME's is also one way through which the informal sector can be integrated into the mainstream economy.

PART V REGIONAL ASPECTS OF THE GROWTH PATH

- 20.1 Our approach to social and economic development is informed by the fact that we are part of a region. Our region is in dire need of infrastructure interventions, and the provision of basic goods and services. Mutually beneficial co-operation would require that our neighbouring countries be in a position to also develop industries to produce goods and services.
- 20.2 We identify **5 issues** around which regional development can be promoted:
- Worker rights and promotion of decent work
 - Infrastructure development
 - Industrial development and trade policy
 - Migration
 - Food, water and energy security
- 20.3 The need to **have a common approach to policy** in the region is important to drive a coherent growth and development path. However, this depends on the balance of forces in each of the countries. But for regional development to have any meaning, there needs to be a common understanding and code adopted when it comes to critical issues of economic development.
- 20.4 It would be important for the region to forge a common approach to the issue of **worker rights and the creation of decent work**. Of course, decent work will have to be contextualised. However, worker rights, empowerment and the creation of decent work should be the cornerstone of the region's strategy to break away from anti-poor growth¹⁴³.
- 20.5 As noted in our pillars, **infrastructure development** is the first and foremost way to integrate development in the region. However, the manner in which infrastructure is financed and rolled out is important. Reliance on external sources comes with strings attached, which may be a fetter to industrial development. Furthermore, in the roll-out of infrastructure, the creation of decent work must be a priority.
- 20.6 Building infrastructure must also be accompanied by **building human resources** to manage this infrastructure, to produce and deliver basic goods and services to the workers and poor households in the region. Clearly, South Africa can play a leading role in making this a reality. However, it would also require that South Africa simultaneously engages

143 See Accelerated Transformation, 2000, p.117.

in a transformation programme that re-orientates its education system to also integrate the needs of the region and the continent. This can be done through scholarships for teachers, engineers, doctors and nurses, and to address the conditions that lead to the **brain-drain of professionals from neighbouring countries**.

- 20.7 **Food, water and energy security** is one area, next to infrastructure development, that will have to be addressed in this growth path. Food security has to do with infrastructure, skills and power relations between conglomerates and local communities¹⁴⁴. Water security is important, especially because the vast majority of people rely on agriculture for their livelihoods. Lastly, energy security is important because it supports existing industries, improves social conditions and contributes towards environmental sustainability.
- 20.8 The region cannot develop unless it has an **over-arching industrial development strategy**. Such a strategy must articulate individual country growth and development strategies, and must clearly identify industrial linkages through which regional economies will be connected. Currently, South Africa plays a central role in connecting the regional economy. In relative terms, in most countries in the region:
- **Imports** from South Africa are large, but **exports** to South Africa are relatively small
 - The **trade relations** between South Africa and the region **are therefore unequal**; individual countries have trade deficits in relation to South Africa
 - The **industrial relations between South Africa and the region are based on support for the core Mineral-Energy-Complex sectors in South Africa**, which is dominated by powerful class interests, e.g. South Africa exports electricity to regional economies to support energy-intensive resource-based industries there, and in turn, countries in the region export strategic inputs, e.g. water and gas, to support South Africa's MEC sectors.
- 20.9 The political stability that has been brought about by the demise of the apartheid state has not brought to the region mass-based development. The failure of past policies to alter the industrial structure and orientation of South Africa and the embracing of neo-liberal policies of trade and financial liberalization has allowed **the MEC-type system of accumulation to expand its operations in regional economies**. For example, the links between Eskom and Mozal and between Mozambique's Natural Gas Project and SASOL are instructive in this regard.

144 The move up north of South African firms, especially in wholesale and retail, has been known to have displaced local producers, and thereby dislocated the livelihoods of poor communities.

- 20.10 Industrial development can occur if policies are in place to support it. An important policy in this regard relates to trade. If trade policy does not protect vulnerable, labour intensive industries, does not allow for the growth of strategic sectors and does not promote linkages between sectors, then a coherent industrial base will be difficult to build. **We are thus concerned about the EPA's that SADC countries are currently engaged in.** These are part of the “mineral diplomacy” of the EU, to continue exploiting raw minerals from the region, whilst the region fails to develop downstream industries to create decent jobs.
- 20.11 The **failure of regional economies to diversify production** and to develop labour-intensive industries **generates high unemployment, which is a major driver of “forced migration”**. An overwhelming majority of non-South African nationals are pushed from their countries because of lack of opportunities, infrastructure, unemployment and poverty. Therefore, in order to deal with this “forced migration” it is important to promote a broad-based industrial strategy that creates linkages among regional economies, and allows for the development of downstream industries in each of the regional economies. But this too depends on the policy choices each country makes, especially as they relate to trade and industrial policy.
- 20.12 Breaking up private monopoly domination of strategic sectors in the region, promoting downstream labour-intensive industries and building linkages within and between regional economies in a manner that promotes decent work, people-empowerment and national sovereignty requires a high degree of political commitment, which can be brought about by a **re-alignment of class forces**. Such a re-alignment is the only basis for regional states to implement progressive developmental policies.

PART VI CONCLUSION

21.1 In this document we have laid out interventions that we propose the developmental state must implement. The aims of this new growth path are:

- The creation of **decent work**
- **Redistribution** of income and power
- **Industrial development**
- Meeting **basic needs**
- **Environmental Sustainability**
- The development of **Southern Africa**

21.2 On Economic Policy, we have identified five areas and proposed policy interventions:

- Industrial Policy
- Rural Development
- Trade Policy
- Skills Development
- Macroeconomic Policy

21.3 In terms of social policy, which we view as an important element of redistribution and development in its own right, we have also identified **five broad areas** in which the state must take lead:

- Education
- Healthcare
- Crime, Corruption and the Justice System
- Basic Infrastructure
- Environmental Sustainability and Green Jobs
- Social Protection

- 21.4 We also argue that for this growth and development path to be successful there needs to be a **change in the patterns of ownership**, so that the democratic state has leverage to drive social and economic development in a particular direction. We identified a number of strategic sectors, in line with our growth path framework [in which we] / [that we] think there is a need for strategic/ [should be brought under] public ownership. Through this change in ownership, we believe that downstream, labour intensive industries will be stimulated, we could mobilize resources to meet basic needs and to deliver basic services and to alter the industrial and development landscape of the country and the region.
- 21.5 In terms of **regional development**, we note that the failure of South Africa to change its industrial structure, and the continued dominance of our economy by conglomerates, especially around the core Minerals Energy sectors, spells doom for regional industrial development. Already, there are signs that regional development will follow the along the lines of MEC-type system of capital accumulation, with South Africa's MEC sectors and global conglomerates using South Africa as the nexus for such a regional MEC system of accumulation. Under these circumstances, we do not see the prospects of industrialization in the region, unless a popular alliance of classes drive state policy to industrialize the region and to challenge the power of global conglomerates in shaping the evolution of Southern Africa's economies and their relationship to each other.
- 21.6 It is therefore incumbent upon South Africans to ensure that they change the pattern of economic development that has characterized this country for over a century, and to thus pave a way for a new growth path around which regional economies can integrate and develop on an equal basis.
- 21.7 The **policy proposals made in this document should be considered as a package**. For example fiscal and monetary policies must be linked to employment creation; fiscal policy must dominate monetary policy in the fiscal-monetary mix. The mix itself must be dominated by industrial, rural and social policy concerns. The threads that connect these policy levers are redistribution and decent work.
- 21.8 This framework document is an important start to a process of more detailed engagement, further elaboration of policy proposals, and interaction with government and civil society. We place it on the table for input, consideration, and debate, but most importantly, to unleash the energy and urgency needed to address our massive national challenges.