How is it to be done? Thoughts on social and economic transformation

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Introduction

As our intention is to transform the economy and society, we need more discussion on how such transformation is to be done. To improve our effectiveness, we need to be more explicit about the theoretical foundations of our interventions to advance social and economic transformation.

In undertaking such discussions we will need to answer questions such as: What are the transformative outcomes that we seek to achieve in the current phase? What are the causal linkages between our interventions and our desired outcomes? What unintended consequences may result from our interventions? How do domestic and international conditions shape the feasibility and likely impacts of our interventions? Is it correct to say that our policies have been correct, the only problem has been with poor implementation?

This contribution seeks not to answer all such questions conclusively, but rather to raise some of the key issues and methods that will need to be considered in order to strengthen the theoretical basis of our approach to social and economic transformation. It will only be through processes of organisational discussion that we will begin to build deeper consensus on these issues.

Some might find theoretical discussions to be too abstract, tedious, and divisive, but for a movement that at times seems to have lost its way, there is much that can be gained in clarifying and making more explicit some of the key points on our theoretical compass. In these discussions, dogmatism and divisiveness should be strictly avoided. Openness and intellectual honesty should be the hallmark of a democratic movement.

We need to learn from others but think for ourselves. Our theoretical approach should be informed by the insights of various bodies of intellectual work, whether from Marx, Fanon, Keynes, and many others, but ultimately, we must determine our own approach, based on the facts on the ground, and rooted in our own history and struggles.

As a starting point, our theory must be informed by our principles. It must provide direction on how we should go about achieving the living realisation of our principles. The achievement of non-racialism and non-sexism will require active processes to break down racist and sexist structural constraints and create new pathways of inclusion, so that all in South Africa, regardless of their race and gender, can participate fully in society and enjoy good economic prospects. Similarly, the principle of democracy is rooted in our belief in human dignity and must aim to achieve the freeing of all human potential, through the direct involvement of the people.

In the struggles to overcome colonialism and apartheid, our movement was guided by theoretical discussions on the nature and structure of a South African society riven by race, class, and gender contradictions. We were also guided by theories of how various pillars of struggle should be utilised to isolate and defeat enemy forces. Now we need deeper theoretical insights on how best to advance our programme of social and economic transformation in the current context.

To do this effectively, it is important that we correctly characterise some of the most important structural features of the South African economy and society. Firstly, South Africa continues to be highly unequal, fractured along race, gender, class, and spatial lines and exhibiting the features of a 'dual' economy, including mass unemployment and exclusion. Secondly, South Africa has a 'mixed' economy, made up of sizeable public and private sectors. Thirdly, South Africa is an 'open' economy, with significant international trade and investment flows. To be effective, our programme of social and economic transformation should be informed by these structural characteristics and should be logically capable of achieving its objectives in such a context.

Transformation in a 'dual' economy

Characterised as a form of 'Colonialism of a Special Type', the colonial and apartheid economy included typical features of racialised colonial exploitation of the various indigenous black population groups – including at various time through enslavement, land dispossession, migrant labour, job reservation and low wages.

Less typically, as compared to the colonisation of most other African countries, South Africa's white population, as well as other population groups many of whom were brought from various places including India and other parts of Asia primarily to serve as cheap labour, settled in the country in significant numbers. Over time on the back of a system of racialised exploitation, colonial and apartheid South Africa saw the building up within the country of a significant presence of infrastructure and industry, including mining, agricultural, manufacturing, and financial capital.

This legacy of 'colonialism in one country' is at the heart of the extreme inequality and 'dualism' that persists in present day South Africa – where we have a constrained, higher productivity 'formal' sector; and a large, lower productivity, 'informal' and 'excluded' sector.

South African capital was assisted, but also constrained and distorted, by colonial and apartheid policies. Ownership in the formal sector was limit to whites and was highly concentrated. The sector was narrowly focussed on extractive activity - centred on the country's minerals and energy complex. Black South Africans were dispossessed of land and were excluded from ownership of capital and from other forms of economic participation.

To correct this historical distortion, policies are required to accelerate and expand the process of capital formation in South Africa and diversify investment into new productive sectors beyond the historical minerals and energy complex. And, at the same time, we require the implementation of corrective policies to ensure that black South Africans can also participate as owners in the process of capital formation, through Broad-Based Black Economic Empowerment, including worker ownership mechanisms, as well as through productive land ownership.

A structural feature of the South African economy, which flows directly from our history's distorted process of capital formation and system of racial oppression, is a very high rate of structural, or long-term, unemployment. This history casts a long shadow, as while generally employment levels have continued to grow each year since 1994, the rate of employment growth has not kept up with the rate at which young people are entering the labour market. The result for most years, with a few exceptions, such as in the early 2000's when the economic growth rate was very high, has been rising unemployment, particularly youth unemployment.

One necessary condition for the South African economy to begin to create employment opportunities at a faster pace, would be to accelerate the growth of the capital base of the economy. But, given the significant numbers of people who are structurally excluded it is not likely that full employment will be achieved through such accelerated capital formation in a reasonable amount of time. Due to this deeply entrenched exclusion and structural 'dualism', South Africa's programme to increase employment and increase access to economic activity would need to be built on two pillars.

Firstly, we will need policies favouring investment promotion, capital formation and job creation in the formal, higher-productivity sector. The so-called 'Asian-tigers' with their strong, capable 'developmental states' have shown the way in this regard. These 'developmental states' used centralised planning and industrial policy instruments to grow their economies' capital and technological bases in order to bring more and more of their people into higher-productivity, higher-wage-earning activity. Here, the restoration of energy security through a well-managed energy transition is an essential prerequisite, as the growth of South Africa's 'formal', higher-productivity sector will not be possible without access to reliable and affordable electricity. Other important structural reforms are those aimed at unlocking investment in 5G and under telecommunications technology, as well as reforms to promote new investment in South Africa's logistical network including the country's road, rail, and ports infrastructure.

Secondly, specific interventions will be required to boost economic activity in the 'informal', low-productivity sector. This could be done through programmes to better support and facilitate informal economic activity and for small businesses and co-operatives, as well as through public employment programmes, linked to building and maintaining economic and social infrastructure, as well as interventions to widen land ownership combined with measures to boost small scale farming activity. Such interventions will begin to reduce inequality and dualism, will allow for a more inclusive growth pattern, and will have the effect of growing South Africa's middle class.

In addition to recognizing that specific tailor-made policy frameworks are required for the 'formal' and 'informal' sectors, another advantage of 'dual' economy analysis is that it allows us to trace important linkages and causal relationships between the two sectors. For example, if there is a technological advance in the formal sector, which boosts formal sector employment, this may lead to increased employment flows from the informal to the formal sector, resulting in fewer people, and rising productivity and incomes, in the informal sector. 'Dual' economy analysis also allows us to detect situations where gains in the formal sector are shared only among owners of capital and formal sector workers, where wages and profits rise, but employment in the formal sector does not increase and informal sector productivity and incomes do not rise. Through 'dual' economy analysis we can also gauge the impact of interventions aimed at raising productivity and incomes in the informal sector, such as, land reform and the extension of agricultural services, where improvements in productivity conditions in the informal sector lead to raised incomes in the informal sector and also improve the fallback option for formal sector workers putting upward pressure on formal sector wages.

Transformation in a 'mixed' economy

The South African economy is 'mixed' in the sense that the country has sizeable public and private sectors. As such, a successful programme of social and economic transformation will need to be built on a clear theoretical understanding of the specific roles and contributions of the public and private sectors.

An effective public sector, or state sector, should play a role in advancing a vision of social justice through equitable and efficient service delivery, correcting for market failures through the provision of public services, and creating the conditions for inclusive growth through the implementation of pre-distribution, redistribution, and development policies.

A growing private sector, should play a key role in driving investment, employment creation, innovation, and the deployment of new technologies.

In a 'mixed' economy, the state and market should seek to complement, but not dominate, each other. There should be contestation and cooperation with the aim of achieving common national objectives. Generally, if there is too much state control – economic activity may become ossified and lack dynamism and innovation. If there is too much market power then inequalities of income, wealth and opportunity are likely to worsen, as is damage to the environment.

It is the state's role to provide access to vital public services, such as, education, health care, housing, water, and transport. Access to such services impacts heavily on what life opportunities people will have. These are sometimes described as 'pre-distribution' factors. To counter, apartheid's ongoing legacy of a skewed quality of health, education and other services, improved provision of basic services of sufficient quality to underserviced communities is needed strengthen the economic opportunities of many black South Africans in particular –

enabling better participation in the economy and making pre-distribution patterns fairer. Poor levels of service delivery tend to entrench apartheid patterns of inequality and continues to skew access to opportunities.

State policies and legal frameworks also have distributional implications. Minimum wages tend to strengthen the position of low-income earners, or the working poor, but there are limits as to how high minimum wages can be lifted. To avoid job losses, for example due to increased mechanisation, such limits are best revealed through research and negotiations involving both employers and employees.

In a 'mixed' economy, economic outcomes are dependent on the mutual and interrelated performance of the public and private sectors. If the state fails in its responsibilities – for example through the inadequate provision of electricity, water, education, and health services – this will slow down the overall economic growth rate and worsen joblessness and inequality. Similarly, if the private sector engages in tax evasion, or decides to move its activities outside of South Africa – this too this will slow down economic growth and worsen joblessness and inequality.

It is with the aim of optimising co-operation and making social partner commitments public and explicit, that a process of deepened and sustained social compacting has been proposed among social partners – government, business, trade unions and community representatives. Given the various responsibilities and capabilities of public and private actors, the achievement of our national economic objectives will be enhanced through ongoing, and detailed social compacting aimed at strategic objectives, such as, increasing levels of investment and employment, achieving energy security and a just energy transition, and accelerating the building of social and economic infrastructure.

Social compacting will require detailed negations and definite trade-offs. For example, if South Africa strives to increase the level of fixed investment from the current low of around 15% of GDP to over 25% of GDP, this will require a number of policy adjustments and compromises to be made by social partners. Government will have to reprioritise spending for infrastructure investment and will have less resources available for social grants and public servant salary increases. Businesses will be required to commit capital to the country rather than elsewhere and their expected rate of return will need to be based on trust that government will implement structural reforms to improve such matters as energy and rail performance as well as the general level of safety and security. Another consequence for all parties to consider is that as South Africa's domestic savings are not sufficient to fund the targeted level of investment, there will need to be an increase in foreign investment, which will raise foreign ownership in the economy and entail the future outflow of dividends.

At a macroeconomic level, tax policy impacts on the distribution of surplus between the private and public sectors. Tax policy also impacts on the extent of the creation of such surplus through impacting on investor incentives. If tax rates are too low, processes of pre-distribution and redistribution will be compromised. If tax rates are too high, this will create a disincentive for investment, which may lead to fewer jobs and reduced tax resources available for pre-distribution and redistribution.

Similarly, we need to have a clear theoretical understanding of the potential and the constraints related to public borrowing. If public borrowing is used to mobilise resources for investment in the expansion of infrastructure and services, which in turn leads to increased growth and tax revenues, this has the potential to advance social and economic transformation in a sustainable manner. On the other hand, if borrowing and national debt rises, and there is no related increase in the rate of economic growth, employment, and tax revenue collections, then rising debt will retard and limit processes of social and economic transformation.

This is due to the fact that as debt rises, more and more public funds will have to be allocated to repay debt obligations, reducing resource availability for investment in infrastructure and for service delivery. This limitation cannot sustainably be overcome by government choosing to 'print more money', as the 'printing of money' in this manner will likely have negative consequences, such as, inflation or hyperinflation resulting in reduced investment and job creation. A policy of 'printing money' will also likely lead to reduced inflows of foreign funds, a sharp exchange rate deprecation and limitations on access to foreign currency needed for the purchase of necessary imports, including fuel, food, medicine, and equipment. As such, rather than being an expansionary macroeconomic policy instrument, the 'printing money' in this manner is more likely to be highly contractionary.

Transformation in an 'open' economy

The South Africa economy is described as 'open' in the sense that a large portion of the country's economic activity and employment is linked to export and import activity, and South Africa's financial sector is highly integrated with global finance even though certain exchange controls continue to apply to local individuals and companies.

This 'openness' is positive in the sense that South African companies can produce more goods, and employ more people, if they produce for the global market than if they were only to produce for the domestic market. Exports also generate international currency, to fund necessary imports. On the other hand, 'openness' also creates risks. For example, foreign companies may introduce cheaper products the importation of which threaten local production and jobs. 'Open' economies can also be negatively impacted by a variety of 'shocks', including war and recession.

Policies to promote localisation seek to promote investment and employment by favouring locally produced goods over imported goods, or by integrating South African producers into global manufacturing supply chains as is the case with South Africa's automotive industry. In general, localisation policies should only be undertaken in circumstances where, after a short period of time, the 'protected' local producers will be able to compete with imports (ideally both domestically and in export markets) without the need for ongoing tariff protection or other forms of government support. If protection is prolonged it creates inefficiencies for the

South African economy and works against the interests of South African consumers, who are then required to pay more for local goods, when they could buy imported goods, of equal or better quality, more cheaply.

With the recent coming into force of Africa's continent-wide trade and economic development agreement, positive opportunities exist to expand South Africa's trade and investment with other countries on the African continent. The new African trade arrangement will be reciprocal and will require South Africa to open up for the importation of more African-made goods and services. There are also likely to be significant opportunities for South African companies to participate in the building the kind of infrastructure needed to promote the intra-African movement of goods and people.

Conclusion

Ideas often arise from their opposite. The appeal for a deeper, more theoretical discussion on the interventions needed to advance our programme of social and economic transformation, arises from the dearth of such organisational discussions in recent years.

It is hoped that we can enter a phase of deeper engagement on these issues with the aim of making our transformation programme more effective, more theoretically coherent and more deeply rooted in the structural and historical factors that have shaped our broken society.