

**THE GROWTH SUMMIT:
NECESSARY TO REPLACE "WISHFUL THINKING"
WITH SOBER REALISM**

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The Growth and Development Summit offers a unique opportunity to make an in depth evaluation of the merits of our new politico-economic system.

A huge responsibility rest on the shoulders of the participants of the Summit not to busy themselves with small amendments in macroeconomic, fiscal and monetary policy, but to seek answers to fundamental questions of our new politico-economic system. The main question ought to be the following: Is our new politico-economic system operating functional in solving our seemingly insolvable unemployment and poverty problems and, if not, why not?

The potential labour force that could not get formal employment in the modern sector increased from almost 5 million in 1994 to almost 8 million. Almost a million job opportunities were lost and more than 2 million of those that entered the labour market for the first time since 1994, have not been successful to obtain permanent jobs opportunities.

The government is spending more on social services and poverty alleviation than the apartheid regime, but the additional amounts are not nearly large enough to stop the pauperisation process. The poorest 50% of the population are exposed to several poverty traps that are perpetuating their misery. While the income of the top 30% increased since 1994, the income of the poorest 50% declined.

It was a huge mistake to superimpose a free market economy policy and ideology on the ash heap of apartheid. In 1994 almost 50% of the population were marginalised, propertyless, unemployed, uneducated and without skills. We should not be surprised that they are today to a great extent marginalised from the modern freemarket orientated sector.

During the 1980s South Africa was confronted with a threefold organic crisis: an accumulation crisis, a legitimation crisis and a poverty or social crisis. During the first half of the 1990s the corporate sector, the white political sector and the ANC attained agreement on the terms on which the accumulation and legitimation crises would be solved. On the basis of that agreement a remarkable political transformation took place and conditions were created for a reasonable solution of the private sector's accumulation crisis.

Unfortunately, the social or poverty crisis was almost completely neglected during the negotiation. The talks never came up with a plan for a *direct* solution of this crisis. The corporate sector and the ANC reached agreement that the unemployment and poverty problems would be solved *indirectly* and *gradually* through high levels of investment and

a high growth path, within the framework of globalisation and freemarket policies. This mistake was made because none of negotiators appreciated the depth and dynamism of the prauperisation process.

The corporate sector's neoliberal approach received the blessing of the government when the GEAR policy was announced. After seven years of GEAR no additional employment opportunities have been created and no "redistribution" trickle down to the poor has taken place on the contrary.

The purpose of the GEAR policy was to create conditions that would be conducive for the influx of foreign direct investment (FDI). Instead of an expected annual influx of FDI equal to at least 5% of GDP, the actual annual influx was only 1%. A recent article in the *Economist* indicates that the liberalisation of capital flows is unlikely to be to the advantage of countries in the Poor South. Any attempt of the Growth Summit to tinker with GEAR in a desperate attempt to invite FDI, will betray the corporate sector and the ANC dogmatic and unrealistic belief (or wishful thinking) that globalisation and neoliberalism would be instrumental in solving our unemployment and poverty problems. For the impoverished majority, GEAR was a disaster

It is illuminating to compare South Africa's politico-economic system of 1973 with the system of 2003. The dual politico-economic system of 1973 was one of white political dominance plus racial and colonial capitalism. It was an exceptionally negative and dysfunctional system because at least 80% of the blacks were systemically exploited.

Since 1973 both the political and economic facets of our dual politico-economic changed drastically. The political system changed into a system of representative democracy but the new government does not have the sovereignty and capacity to address the dismal legacy of apartheid effectively.

When African labour lost its cheapness and its docility in the 1970s, the corporate sector took defensive steps by substituting capital for labour. Consequently, the capital intensity of the private sector increased sharply, while its labour absorptive capacity became much weakened. The tendency to capital intensity was strongly stimulated over the last 9 years by the policies of globalisation and neoliberalism.

The economic facet of our politico-economic system changed over the past 30 years into an open, global orientated, and first world, capitalist enclave. The main characteristic of this enclave is - like the economies of other first world countries - its tendency towards jobless-growth and even job-destroying growth. As the governments macro-economic globalisation and labour policies stimulates the trend towards enclavity, the government in effect condones the enclave's inclination to detach itself from the (still relative unskilled) African labour market. The systemic trend towards enclavity is, therefore, the main reason for the growing unemployment and the worsening of the poverty problem.

It is of the utmost importance that the Summit should acknowledge that our unemployment and poverty problems are *systemic* in nature. Even if a higher economic growth rate can be attained - within the framework of globalisation and neo-liberalism - the higher growth rate would in all probability further stimulate the tendency towards enclivity and this would further weaken the job-absorbing capacity of the economy.

Our new dual politico-economic system is in many respects an improvement on the politico-economic system of 1973. The new system is, however, also dysfunctional because both the political and the economic facets of our new system are excluding and neglecting the interest of the poorest 60% of the blacks systemically.

The state is largely excluding and neglecting the poor because both its sovereignty and its capacity are too constrained by the "compact of power" on which the ANC and the corporate sector reached agreement in the early 1990s. In accordance with the ideology of neoliberalism the capacity and functions of the state were "rolled-back" in a rather irresponsible way over the last 9 years. The state was unfortunately, not given the space and the responsibility to become a truly developmental state to bridge the "great divide" in our "two-world economy" and to meet the highly needed developmental and employment needs of the marginalised majority.

On the other hand the power and influence of the corporate sector and its global partners are too strong, while its interests are carefully entrenched in the new "compact of power". It uses its power and its ideological influence to promote its short term and sectional interests by further stimulating the trend towards enclivity to the detriment of the poor.

The Summit would display sober realism if it were prepared to acknowledge that the trend towards capitalist enclivity is - from the point of view of the impoverished majority - as a deplorable phenomenon as was apartheid. The Summit should acknowledge that the "compact of power" between the old white elite and the new black elite is not sustainable because it excludes the genuine interests of the unemployed and impoverished majority. This can destabilise the system over time.

The Summit can only be successful if agreement can be reached about the necessity that the terms of both the "elite compromises" and the power relations - agreed upon by the corporate sector and the ANC during the early 1990s - should be renegotiated from scratch.

AN EVALUATION OF THE GROWTH AND DEVELOPMENT SUMMIT**OR****THE OPTIMISM OF THE GROWTH SUMMIT IS UNWARRENTED AND
OVER THE TOP****Sampie Terreblanche**

The government, organised business, labour and civil society committed themselves at the Growth and Development Summit (GDS) to reduce South Africa's 40% unemployment rate to 20% by 2014.

At present approximately 6,4 million persons (according to the wider definition of unemployment) are unemployed out of a (potential) labour force of 16 million. It is reasonable to expect that at least 4 million additional people will be part of the labour force in 2014. The potential labour force will then be at least 20 million. To attain a 20% unemployment rate (or 4 million unemployed persons) in 2014, it will be necessary to create 6,4 million *additional* jobs over the next 10 years - or more or less 640,000 new jobs annually!

This is a tall order. If the limited measures on which agreement were reached at the GDS are taken into account, sober realism compel us to acknowledge that it is an unattainable target.

The GDS was a great disappointment because it put the cart before the horse in two senses of the proverb. Firstly, it did not seek to attain agreement on the root causes for the sharp increase in unemployment over the past 30 years. Secondly, the government decided that its GEAR policy, its free-market and globalisation approach and its labour laws were not open for discussion.

In 1970 the labour force was less than 10 million and less than 2 million (or 20%) were unemployed. What went wrong since 1970? From 1974 to 1994 South Africa experienced stagflation with an annual economic growth rate of only 1,7%. It was mainly Africans that lost their jobs in this period. African unemployment increased from 1,6 million in 1970 to 4,4 million in 1994. When African labour lost its docility and its cheapness in the 1970s, the corporate sector took defensive steps. It started to replace the more expensive African labour with machinery. Consequently, the capital intensity of the economy increased and the labour absorptive capacity declined.

The South African economy system was a typical example of racial capitalisation until 1970. It thrived on cheap and docile black labour. Over the past 30 years it was transformed into an open, first world capitalist enclave. This trend toward enclavity was strongly stimulated over the past 9 years by GEAR, by the government's free-market and globalisation approach and by its labour laws. While 34% of the total African population was employed permanently in the formal sector in 1970, only 13% is thus employed presently.

If the government is to remain adamant in maintaining GEAR, its free-market and globalisation approach and its labour laws for another 10 years, the strong trend towards an open, first world capitalist enclave will certainly continue unabated. Then the modern sector will become even more capital intensive and the labour absorptive capacity of the economy will become even weaker. The unemployment rate will in all probability then be higher than 50%, even if a higher growth rate is attained. More than 10 million will then be unemployed instead of the 6,4 million presently.

The dysfunctionality of the government's free-market and globalisation policy were recently acknowledged from an unexpected corner. The Economist came to the conclusion that the "evangelist approach" to capital market liberalisation had no place in developing countries. One of the main purposes of GEAR and globalisation was to create condition conducive for the influx of foreign direct investment (FDI). We should not be surprise that the influx of FDI was only equal to 1% of GDP, instead of the 5% promised by GEAR.

What we needed at the GDS was not a vague commitment by business to invest R145 billion over the next few years, but an honest acknowledgement of the *dysfunctionality* of South Africa's free-market and global orientated economic system and policy - especially if we look at it from the perspective of the impoverished majority.

In 1994 the poorest 40% of the population was already marginalised from the main stream of the free-market orientated economy. Presently 50% of the population is marginalised to an even greater degree. This is certainly enough proof that it was a huge mistake to "superimpose" a free-market, a global orientated system and rigid labour laws on the ash heap of apartheid.

What South Africa need at this stage of the post-apartheid period is a truly developmental state to bridge the "great divide" and the "growing gap" between the rich and the poor and between the employed and the unemployed. The development state should supply in the basic needs of the desperate poor and in the highly needed development and employment needs of the rest of the marginalised majority.

If one read carefully between the lines of the agreement reached at the GDS, one detects small shifts towards the idea of a true developmental state. Pressure will be put on business to contribute 5% of their investable funds to programmes to create jobs. (Will the other 95% still be invested in highly capital-intensive investments?). A plan was announced to increase learnerships - to train unemployment and unskilled workers - from 23 000 to 72 000 by May next year. The government also plans to expand public works programmes aimed at providing income relief to poor communities by granting short term jobs to the unemployed to carry out social-delivery projects.

Although these programmes are to be welcomed, together they represent far too little too late. The time is also long overdue to prioritise the building of public sector capacity as a highly needed and strategic component of a truly developmental state. The dogma that public sector investment would be inclined to "crowd out" private sector investment, ought to be rejected. It is much more likely that well-targeted public sector investment would be inclined to "crowd in" private sector investment.

It is really a pity that the GDS did not decide that more should be spend on poverty alleviation. Unfortunately, organised business declared before the GDS - shockingly enough - that social spending is at a sufficient level!

Perhaps the most disturbing aspect of the GDS is the almost hyperbolic optimism that was created artificially and unwarrantedly by the Summit. It is reminiscent of the false optimism that accompanied the announcement of GEAR in June 1996.

We are familiar with the business sectors' ability towards myth making. But the myth making that accompanied the agreements at the GDS was certainly over the top. This kind of propaganda has perhaps more to do with attempts to legitimise and perpetuate of the power and privileges of the corporate sector, than about a realistic prospect of the South African economy over the next 10 years.

It would be advisable for both the government and the corporate sector to judge the true performance of the South African economy to a larger extent from the perspective of the 23 million people that belongs to households who have to carry the awesome burden of structural unemployment and abject poverty. While the government and the corporate sector are rather complacent about the macroeconomic stability attained, they should, however, not underestimate the destabilising effect of escalating unemployment, poverty, crime and violence.
