Collective Action, Incentives and Social Welfare:
An Analysis of South African Policy Forums

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<tr>
<td>BSA</td>
<td>Business South Africa</td>
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<tr>
<td>BTT</td>
<td>Board on Tariffs and Trade</td>
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<td>Cosatu</td>
<td>Congress of South African Trade Unions</td>
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<td>Fedsal</td>
<td>Federation of South African Labour</td>
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<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GEIS</td>
<td>General Export Incentive Scheme</td>
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<tr>
<td>Nafcoc</td>
<td>National African Chamber of Commerce</td>
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<tr>
<td>Naledi</td>
<td>National Labour and Economic Development Institute</td>
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<td>Nedlac</td>
<td>National Economic Development and Labour Council</td>
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<td>NEF</td>
<td>National Economic Forum</td>
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<td>NMC</td>
<td>National Manpower Commission</td>
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<td>NTB</td>
<td>National Training Board</td>
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<tr>
<td>Saccola</td>
<td>South African Employers Consultative Committee on Labour Affairs</td>
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<td>Sacob</td>
<td>South African Chamber of Business</td>
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<td>Sasbo</td>
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INTRODUCTION

This paper is concerned with the analysis of South African policy making forums. It attempts to develop an understanding of how such forums might contribute to the welfare of South African society, and what can be done to enhance this contribution.

The widespread emergence of policy making forums in South Africa has not gone unnoticed. Much local literature has been produced in recent years on the issue (Baskin, 1993; Maree, 1993; Schreiner, 1994; Nattrass, 1994). All of these contributions adopt the framework of "neo-corporatism" in their analysis. By contrast, this paper is grounded in the theory of public choice.

The concept of "neo-corporatism" has been developed in a body of international literature concerned with the institutional structures through which policy was developed and implemented in countries such as Austria and Sweden in the post war period (Grant, 1985). These institutional structures evolved out of the imperatives of post-war reconstruction and the balance of power between labour, capital and state. The prefix neo- is used to distinguish the institutional arrangements in these social democracies from those in place in fascist Italy which have been referred to as corporatist.

There is much confusion over the exact meaning of "neo-corporatism", but there seems to be some agreement that it centrally involves the relationship between the state and organised interests such as business and labour. In the countries identified as neo-corporatist, this relationship was structured in such a way as to influence the behaviour of each of these parties towards the attainment of national objectives such as growth and low unemployment (ibid:4).

There are two reasons why I have chosen not to use neo-corporatism as the means of analysis in this paper. Firstly, the thinking around the concept has been developed inductively from the experiences of particular societies, but a plausible deductive theory of what transpired in these societies has not been forthcoming (Olson, 1986). To use a crude example, it might thus be said that while we can observe that Sweden had very low levels of unemployment for most of the post-war period and that Swedish policy making was characterised at the time by a particular type of interaction between government, labour and business, neo-corporatist theory does not offer a robust (deductive) argument of why certain policy making institutions
led to particular desirable social outcomes. In other words, the understanding of the causal relationship between existing institutions and social outcomes remains undeveloped.

The second reason for not using a neo-corporatist framework in the analysis which follows is that the political and economic conditions in contemporary South Africa are very removed from those of European neo-corporatist countries, and thus inductive theory based on the European experience is not of much use. In particular, as is argued in Chapter Two, the state, seen as the primary factor directing the policy making process in neo-corporatist theory, has played a very ambiguous role in the South African experience of forum based policy making. As South African policy forums have arisen during a period of political transition, the government has had neither the confidence nor the legitimacy to play the directing role which has characterised episodes of neo-corporatism in other countries.

The paper is divided into two chapters. The first considers a deductive theory of interest group behaviour developed from the literature of public choice and the second applies this to South Africa's recent experience of policy forums. Most public choice literature is concerned with the state, as processes influencing government such as voting and lobbying are seen as a central means through which individuals take collective action. In addition, it is through government bureaus that the goods and services demanded through this action are supplied (Mueller, 1976; Wolf, 1979). As stated, the emphasis in what follows is slightly different in that the activities of interest groups is the major subject of consideration.
CHAPTER 1 - Public choice theory and the dynamics of interest group behaviour

1.1. INTRODUCTION

Public choice theory is a relatively new area of economic thought which has attracted much attention (and created an equal degree of controversy) in recent years (Evans, 1992). This chapter presents a brief survey of public choice literature, focusing on contributions to the understanding of interest group behaviour. The purpose is to identify and explain ideas which could be useful in the analysis of institutions and policy making processes. Many of the arguments behind public choice theory are deceptively simple, but their implications can be far reaching.

Much of the chapter is concerned with two key hypotheses from public choice theory, best articulated in the work of Olson (1982, 1986). The first concerns the motivations of individuals in forming organisations. As outlined in greater depth below, public choice theorists argue that groups of individuals with a common collective interest will not be able to organise effectively unless special conditions prevail. Consequently, it is asserted that the organised groups in existence at any point in time are unlikely to be representative of all interests in society. An implication drawn from this "asymmetry" is that a process of bargaining between organisations over policy would lead to inequitable social outcomes as the needs of individuals who have been unable to organise would be overlooked.

The second hypothesis has to do with the behaviour of groups which have been able to organise successfully. While it is in the interest of organised groups to operate in a prosperous environment, public choice theorists are sceptical as to whether such groups will contribute to general prosperity. They believe that the incentives which organisations face lead them to taking actions which benefit their members at the expense of broader society. Organisations representing narrow interests (referred to as "redistributional coalitions") are said to care the least about general welfare. It is thus argued that society would benefit if only a few "encompassing" organisations were in existence, each representing as broad a constituency as possible.

The next section of this chapter gives a definition of public choice theory; it goes on to
sketch the reasons for the development of this new body of thought and outlines the three postulates on which it is based. The substance of the chapter is contained in sections three and four. Section three outlines the conditions which would have to be satisfied, in the public choice view, for groups to form effective representative organisations. Section four examines the incentives which organisations are said to operate under and considers how these incentives influence their behaviour. The fifth section critically examines the recommendations which public choice theorists have put forward for political reform in light of their contentions about organisational behaviour. A summary of the chapter is presented in the final section.

1.2. PUBLIC CHOICE THEORY: DEFINITION AND POSTULATES

Public choice theory can be defined as the economic study of non-market decision making (Mueller, 1976). It has evolved out the growing awareness that as a discipline, economics cannot afford to exclude the operation of government and other social institutions from the scope of its enquiry. Standard macro and micro economic theories are based on implicit assumptions about non-market processes. In particular, political institutions are assumed to succeed in their purported objectives of protecting property rights and enforcing contracts (as they must if markets are to operate smoothly). Although convenient for the construction of tractable models of market behaviour, such assumptions have been at variance to observed results of political interaction (Buchanan, 1979). Using the behavioural assumptions of neo-classical economics, public choice theorists have attempted to explain the actual outcomes of the political process, which are seen in many cases to benefit narrow interests at the expense of broader society, by scrutinising the internal dynamics of non-market institutions (Tullock, 1981).

A fundamental theoretical claim of economics is that, under certain conditions (including perfect information, open competition and the rational behaviour), the self-interested actions of individuals will lead to outcomes which are beneficial for society at large. When the necessary conditions are satisfied, the "invisible hand" channels economic activity in a way that enhances general social welfare, even though this is not a conscious objective of those engaging in the market. Much of public choice theory is concerned with the fact that in governments, trade unions, business organisations and other non-market institutions, individual behaviour, although driven by the same motives evident in the market, can result
in outcomes which are detrimental for social welfare.

The foundations of public choice theory are comparable to those of neo-classical economics. The first postulate of public choice states that individuals, whether in market or non-market institutions, behave as rational utility maximisers (Buchanan, 1987). This does not imply that all politicians, unionists and business leaders are driven by the desire to enrich themselves and their supporters - altruism could have as much of a role in determining their behaviour as greed (Gwartney & Wagner, 1989). However, the notion that such persons are more deeply concerned about the welfare of society than others is regarded with scepticism: on average their motivations are believed to be as selfish or as selfless as anybody else's (Buchanan, 1979).

The second postulate is that of methodological individualism. As in markets, the choices of individuals are assumed to determine the outcomes of non-market interaction (Buchanan, 1987). The third postulate, termed "politics as exchange", characterises political activity as a process through which individuals secure "their own privately defined objectives that cannot be efficiently secured through simple market exchange" (ibid:246). These "objectives" are commonly referred to as public or collective goods. For reasons explored in the following section, public goods cannot be exchanged directly between individual producers and consumers in the market - they must be obtained through collective action in the political sphere (Olson, 1982).

1.3. NON-MARKET ORGANISATIONS: THE NEED & NECESSARY CONDITIONS FOR THEIR CREATION

"Politics as exchange" provides the link between economics and politics in the theory of public choice. The need for government, interest groups and other political organisations is explained in this postulate in terms of the goods and services which the market cannot supply. These public or collective goods will only be provided following a commitment by a group of individuals to offer some collective contribution in exchange for their provision

1. While they are defined in a similar manner, the term "public goods" is usually used in reference to government provisions for the whole of society; "collective goods", on the other hand, are provided by an organisation for a particular fraction of society, being its membership (Olson, 1982).
(which might include votes, donations to the campaigns of politicians, the membership dues of an interest organisation or the time spent at a political rally). In the public choice view, it is the need for collective action which distinguishes political exchange from the simple interaction between a single producer and a single consumer evident in the market (Buchanan, 1987). Following a definition of public and collective goods, this section looks at the conditions regarded as necessary to establish the institutions and organisations which would be able to supply them effectively.

1.3.1 Public Goods and Free Riding

Public and collective goods are defined by the two characteristics which inhibit their provision under normal conditions of market exchange. Firstly they are non-excludable in that it is impossible to prevent anybody in a particular group from consuming them. Secondly they are "non-rivalrous in consumption". That is, the amount of the good available is not reduced by the consumption of any individual in the recipient group (Brubaker, 1975).

The problems of public good provision are best illustrated by an example. Consider the relationship between investment and the protection of property rights. While investment is generally accepted as a precondition for growth in any society, investors will not put their money into machinery, technology and skills if they fear that these will be appropriated by others. To share the benefits of a growing economy, it is therefore necessary for the individuals in society to agree to respect property rights. But, from an individual perspective, there is little incentive to abide by such an agreement. The spoils of stealing will far outweigh the fraction of the social costs which a thief would have to carry as a consequence of financiers reacting to the infringement of property rights by reducing investment. It is likely that any attempt at providing the "public good" of secure rights of the ownership through voluntary agreement will be frustrated. The incentive to free-ride (i.e. to enjoy the benefits derived from other people respecting your property rights while you violate theirs) would be too strong.

An environment in which property rights are respected is perhaps the most important of all public goods. There are many other public goods provided at a societal level (national defense, pollution control, amenities such as street lighting) and collective goods supplied in different sectors (the services of trade unions, business organisations and professional
associations). While all are desirable to potential recipients, their desirability alone is insufficient to induce voluntary contributions to their provision.

A single additional contribution is unlikely to determine whether a public good will be supplied or not. It is therefore rational for potential recipients to refrain from contributing as, if the good is provided, there is no way of preventing them from consuming it, and if it is not, they lose nothing. For this reason, it has been argued that governments, trade unions, lobby groups and many other non-market organisations will not be able to operate effectively unless individuals support them for some reason other than the collective goods which they can, potentially, provide (Olson, 1982). Olson argues that effective non-market organisations exist as a consequence of their ability to apply targeted rewards or penalties to members (termed "selective incentives") on the basis of whether or not they contribute to the costs of the collective goods which the organisation supplies (ibid:21).

1.3.2 Selective Incentives, Effective Organisation & Asymmetric Bargaining

Selective incentives are categorised as negative or positive. The prosecution of thieves, coercion against strike breakers and the threat of deregistration for unprofessional conduct, all means of sanctioning non-contributors, are examples of negative incentives. Positive incentives, would take the form of exclusive benefits available only to the contributing members of an organisation (such as access to valuable information, special rates on services and preferential treatment over non-contributors).

Social pressures are not ignored by this analysis and are in fact included in the categorisation of positive and negative selective incentives. Appreciation of the companionship and respect of others, and the fear of exclusion and ostracism are seen to be powerful and inexpensive means of influencing behaviour. However these "are available only in certain situations ... [having] little applicability to large groups ... [and being] limited by social heterogeneity" (ibid:24). In other words, in groupings such as families, small associations and the like, where all members know each other well, social selective incentives would be very influential. But they would be less effective in organisations covering a broad mass of people.

Given the problems associated with public good provision, Olson argues that interest groups will not be able to organise properly without selective incentives, no matter how attractive
the collective goods which they have the potential to provide (ibid:25). From this it can be said that bodies such as trade unions, business organisations and professional associations are well organised as a consequence of having found selective incentives to apply to membership on the basis of whether they have contributed to the collective goods which the organisation supplies. However, a corollary would be that, as there are few means of either coercing consumers, tax payers, the unemployed and the poor or of giving them targeted benefits on the basis of their contribution to organisational costs, these groups will not, in all probability, be represented by effective organisations.

If selective incentives are unevenly distributed, it is unlikely that societies will attain a symmetrical organisation of all groups. From this Olson concludes that a process of national bargaining amongst organised groups can never result in entirely equitable outcomes (ibid:36). He argues that it is in the interest of organised groups to focus solely on maximising their own benefits. In doing so, they might well choose policies which "although inefficient for society as a whole, are advantageous for organised groups because the costs of the policies fall disproportionately on the unorganised" (ibid:37).

1.4. INCENTIVES AND ORGANISATIONAL BEHAVIOUR

So far the chapter has covered the public choice understanding of why non-market or political institutions exist (in broad terms to provide public goods) and what conditions would have to be satisfied before they could function effectively (selective incentives would be necessary). This section addresses the factors affecting the behaviour of groups which have been successful in setting up effective organisations to take their interests forward. Firstly the kinds of collective action which public choice theorists predict organisations would engage in, given the structure of their incentives, are considered. The economic consequences of the predicted behaviour are then explained in some detail.

1.4.1 Organisational Behaviour: Rent Seeking vs Public Good Provision

In principle, there are three ways in which an organisation can serve its membership - it can enlarge their share of total output; it can contribute to the growth of total output with the intention of increasing the value of the share which members currently receive; or it can do
both. To use a cliched analogy, organisations can increase their slice of the social pie and/or they can increase the size of the pie, enlarging their slice without changing it as a percentage of the total (Olson, 1982).

From an organisational perspective, whatever the productive activities in which membership are involved, "normally the demand for [their products or labour] will be greater the more prosperous the society" (ibid:41). Organisations should thus see prosperity as a something which is desirable. However, from the public choice perspective, it is unlikely that the task of making society more prosperous will be a priority for most organisations. The reasons given for this, which are detailed below, are not unlike those outlined in the earlier discussion about the incentives which individuals face in contributing to collective goods. In essence, while everybody stands to benefit from legislative innovations or structural improvements which make the economy as a whole more productive, only the contributing organisation(s) would carry the cost. The temptation to free-ride would be very large - there is said to be little incentive to pay for a service enjoyed by all if there is the possibility that some other organisation might provide it for you for nothing (ibid:43).

Olson uses the example of a hypothetical organisation whose members receive one percent of total income to illustrate how the incentives which most organisations face militate against them contributing to general prosperity (1986:172). The example considers the situation where the organisation has an opportunity to provide a service, which, although costly, will significantly enhance the productivity of the economy with resulting benefits for everybody.

On a simple cost/benefit basis, the organisation would at most be willing to spend as much supplying the service as it expected to get back in return. In other words, the service will not be provided unless the contributing organisation expects its share of the total benefit to be greater than the cost. With membership receiving one percent of total income, the benefit to society would have to be a hundred times greater than the expense which the organisation would incur in providing the service before the opportunity would be considered. From this it is concluded that, in general, self-interested organisations would not make efforts to enhance general social welfare unless they represented a large proportion of the population and the overall benefits of their efforts were much greater than the cost (ibid:173).

The situation where the same hypothetical organisation decides to dedicate resources to securing a greater share of society's output for its membership (i.e. enlarging the percentage
of the social pie which they receive) has also been assessed (Olson, 1982). As we will see later, redistributive strategies of this kind can distort the pattern of incentives in ways which greatly reduce an economy's output. Members of the organisation will share in these losses. However, by similar logic to that of the above paragraph, Olson asserts that an organisation receiving one percent of total income will go ahead with redistributive efforts until the reduction in total output is one hundred or more times larger than the amount redistributed to membership (ibid:43). Taking both arguments together, it is concluded that there is little incentive for self-interested organisations, particularly those representing a narrow section of society, to make any significant sacrifices in the general interest - membership would be best served if organisations focused their energies on trying to seize a larger share of total production instead (ibid:44). Organisations which behave in this manner are referred to as "redistributional coalitions" (Olson, 1986:172).

1.4.2 The Welfare Costs of Market Restriction

Public choice shares with microeconomic theory the conviction that redistributing income and wealth is a costly exercise, injurious not only to those from whom resources are transferred, but also to society as a whole (Tullock, 1981). Olson believes that reslicing the social pie is an inappropriate way of describing redistribution - a more accurate analogy in his view would be a china shop filled with wrestlers battling over its contents and breaking far more than they carry away (1986). There are a number of so called welfare costs involved in the redistribution of resources. These are considered below after a brief outline of how redistribution can occur.

Redistributional coalitions can obtain transfers from the general tax revenue of the government. However, this would be difficult to organise politically. There are few groups which would be able to justify receiving the proceeds of general taxation and, if transfers were made, they would have to be disguised as something else to make them acceptable (Tullock, 1981). For most organisations, it would be much easier to acquire direct transfers from those who consume their products or services. Direct transfers can be effected in two ways: either by getting the government to intervene (by restricting quantities and prices or imposing tariffs), or by establishing a cartel. Both of these result in less output being produced at higher prices. Members of the redistributional coalition (supposedly) benefit from economic rents or monopoly profits created in the process at the cost of their
Redistribution does not only involve transfers, however. On the assumption that unrestricted markets are allocatively efficient, microeconomists maintain that any collusive action or restrictive intervention by government would lead to a sub-optimal distribution of productive activity. Relatively less would be produced in the restricted sector than desirable, and relatively more elsewhere. So before any monopoly profits or rents are transferred to protected producers, consumers in the restricted sector already suffer as less of the product is available for consumption than would otherwise have been the case, and at a higher price. The cost of this suboptimal distribution of productive activity is commonly referred to as the deadweight welfare loss (Comanor & Liebenstein, 1969).

In a survey of studies on the misallocation of resources resulting from monopolies and tariffs, Leibenstein found that in all cases the associated deadweight welfare losses were "trivial"² (1966:392). This finding has led to the assertion that allocative inefficiency is a relatively small part of the total costs of market restriction (Tullock 1980). In addition to deadweight welfare losses, it has been argued that a substantial proportion of the resources previously thought to be transferred from consumers to producers (as rents or monopoly profits) would also be wasted in the process of redistribution (Comanor & Liebenstein, 1969; Tullock 1980). There are a number of ways in which this could happen, including: losses due to the inefficient deployment of investment; resources being wasted through rent seeking and protection against rent seeking; and inefficiency due to the dampening of competitive pressures. Each of these is dealt with in turn.

Without barriers to entry it is impossible to sustain abnormally high profits caused by restricting the market (Olson, 1982). If, for example, the government sets a price in a way which creates the potential for higher than average profit, investors will shift resources into the affected sector. With a fixed price, the size of the market will be finite and as more investment moves into the restricted sector, so the market shares will contract. Given economies of scale, the profit accruing to each producer will diminish with more market entrants. This will continue up until the point where returns on investments in the restricted sector are the same as in the rest of the economy (Tullock, 1980). The abnormal profit initially evident in the sector is thus wasted as the newly attracted investment will be less

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² All were far less than 1% of Gross National Product.
productive than where it was previously deployed (Olson, 1982). In short, a sector with freedom of entry cannot sustain abnormal profits and government restrictions within such a sector will lead not only to deadweight welfare losses, but also the loss of transfers from consumers to producers as a consequence of inefficient resource deployment.

If a sector has effective barriers to entry, investors will not be able to shift resources into it in response to abnormal profits. The additional losses outlined above should thus be avoided. But it has been argued that transfers in sectors without freedom of entry will be wasted as well (Tullock, 1980).

Tullock uses an examination of the economics of theft to illustrate the social costs of a sustainable monopoly operating behind barriers to entry (1980). Theft is a pure transfer - it does not alter production directly and thus cannot result in deadweight welfare costs. But the overall costs of theft to society are huge. It is highly unlikely that the potential victims of theft will simply surrender their belongings to thieves. The ubiquitous presence of razor wire and rapid response guards in South Africa's suburbs attests to this. To the same extent, in the face of such resistance, determined burglars have been quick to invest in Kalashnikovs and wire cutters. All of this expenditure is totally unproductive. Yet, it is completely rational for thieves and the owners of valuable things to continue spending until marginal cost of offensive or defensive measures is equal to the marginal benefit of belongings gained or saved through their efforts.

The point of that Tullock is trying to make in using the theft analogy is that even if other social welfare costs are minimal, the efforts of those seeking transfers, and of those defending their income against transfers, will produce welfare costs of their own. Effectively organised interest groups will be willing to spend as much on lobbying government or organising collusive action as they expect to gain from the privileges created in the process. Similarly, they will invest as much in repelling the efforts of others to seize their income or assets as they expect to lose. If expected values are correctly calculated, it is argued that defensive and offensive expenditure will probably be equal to the full value of the potential transfer in the face of threatened market restriction, whether or not restriction is successfully carried out (ibid:49).

Microeconomists have argued that the dynamic costs associated with market restriction go far beyond the static concerns considered so far (Comanor and Leibenstein, 1969). By
removing the discipline of the market, collusion and government intervention might induce further welfare losses. The spur of competition induces what has been termed "X-efficiency" which manifests itself in efforts to minimise the unit costs of production (Leibenstein, 1966:392). In the absence of competition, employees and managers would feel less pressurised to use their inputs to the full (Comanor and Leibenstein, 1969). Restricting the market thus has the potential not only of increasing prices, but also of pushing up production costs. These could far surpass the combined costs of transfers and deadweight welfare losses, particularly in the longer term, as guaranteed profits might make protected companies less inclined to adopt cost-cutting technologies.

Why, if market restriction is so costly in social welfare terms, do ordinary citizens not take steps to prevent it from happening? Firstly, as discussed in earlier sections, it would be very difficult to find the selective incentives which would be necessary to draw the citizenry together to contest uncompetitive practices collectively. Secondly, while the members of redistributive coalitions might benefit substantially from collusion and/or other restrictions, the costs of their activities are likely to be spread across a large section of society. Each individual citizen will carry a very small proportion of the total cost of any restriction. The cost of keeping informed about every uncompetitive practice which reduces social welfare would be, however, immense, and the probability of a single individual having any chance of preventing such practices vanishingly small. There is thus an incentive for the citizenry to remain uninformed about efforts to redistribute their income or wealth. This condition is commonly referred to as "rational ignorance" (Gwartney & Wagner, 1989:13). Although generally used to describe the choice behaviour of voters, rational ignorance can also be seen as a powerful concept in explaining how, in pursuing their own narrow interests, redistributive coalitions can impose huge costs on society without being detected or constrained (Olson, 1982).

3. The possibility of producers operating in a way which does not minimise costs goes against the neo-classical (and public choice) assumption that economic agents behave rationally. The notion of X-efficiency is more in line with the perspective on the market process of so-called neo-Schumpeterian theorists (see Freeman, Clark and Soete, 1982 for example). Neo-Schumpeterians believe that competition constantly pressurises firms into cutting production costs or improving products through technological innovation. Successful innovators enjoy temporary monopoly rents until their competitors imitate their technological advance, thereby destroying the innovator’s advantage. This process of "creative destruction" is seen by neo-Schumpeterian theorists as the driving force behind technological advance and economic growth.
1.5. STRUCTURAL SOLUTIONS TO THE PROBLEMS OF COLLECTIVE ACTION

It should be predictable from what has been covered so far that the prescriptions for political reform put forward by public choice theorists would be concerned with stimulating the provision of welfare enhancing public goods and constraining the socially deleterious behaviour of interest groups. There are two schools of thought on how these issues should be addressed. The first argues that constitutional rules must be put in place which prevent collective action from being taken on any issues other than those which can be agreed to by all affected parties (Buchanan, 1986). The second has a more practical perspective in which collective action, whether agreed to or not, is seen to be inevitable. Instead of constraining political activity, it tries to find institutional means of providing interest groups with the incentive to behave in a way which is of benefit to broader society (Olson, 1982, 1986). While the focus of this section will be on the latter, the former view is considered first.

1.5.1 The Constitutional Constraint

It was noted at the beginning of this chapter that public choice theorists are centrally concerned with the belief that while market exchange generally enhances social welfare, political exchange can have socially perverse effects. This is the case despite the fact that the motivations of individuals are said to be the same, regardless of whether they are engaged in politics or markets. These divergent outcomes are seen to be the consequence of the differences in decision making processes evident in the market and in politics.

The exchanges which occur in the market are said to be voluntary - there can be no transactions without a willing seller and a willing buyer (Mueller, 1976). In politics, however, collective action can impose involuntary costs on individuals who are not involved in making the collective decision to act (Buchanan, 1987). For instance, through collusion, a group of producers can compel consumers to pay an inflated price for their products; alternatively, producers could restrict access to their markets through lobbying the government without consulting the consumers and potential entrants who would carry the costs of such action.

Given these differences, theorists such as Buchanan (1987), Tullock (1981) and Gwartney & Wagner (1989) have argued that, if the political process is to result in the welfare
enhancement expected from the market, political exchange would have to be characterised by the voluntarism assumed of market exchange. This could be achieved by confining the scope of legitimate political intervention to those actions which can be agreed to all affected parties. At a societal level, this would require the establishment of a "constitutional constraint", which would set out rules that would restrict political or collective action which imposed costs on unconsenting citizens (Buchanan, 1987).

While there are many criticisms which could be targeted at the constitutional constraint, in terms of our discussion the key failing of this prescription is the fact that it is in direct contradiction with the behavioural assumptions on which public choice theory is founded. It is difficult to imagine how incentives could be structured in such a way that the constitutional framework deemed necessary for socially acceptable political exchange could be developed, maintained or enforced through the self-interested actions of politicians, bureaucrats, voters or lobbyists.

The rest of this chapter tries to find an alternative institutional means of facilitating collective action which is free from the incentive problems identified in the constitutional constraint. The question posed is this: given public choice assumptions about rational self-interest, under what circumstances would stakeholders in society have the incentive to establish structures designed to facilitate beneficial collective action and constrain socially detrimental behaviour voluntarily? Firstly the characteristics of organisations which would be concerned with social welfare are outlined, using illustrations from political competition and labour economics. The dynamics of bringing such organisations together into collective decision making structures are then considered, together with concerns about the stability of these structures.

1.5.2 Encompassing Organisations

Earlier in the chapter it was argued that an organisation with membership earning 1% of total income faces perverse incentives which might lead it to damaging general welfare in the pursuit of members' interests. A corollary to this would be that, if the organisation's membership received far more than 1% of income, it would have much greater concern for the social consequences of its actions. As a large fraction of all welfare costs and benefits would be apportioned to the members of a particularly broad organisation, it should be more willing to contribute to goods which enhanced the general prosperity of society, and less
inclined to engage in redistributive efforts than the average interest. Groups which behave in this way are referred to as "encompassing organisations" (Olson, 1982:47).

The most straightforward example of encompassing behaviour can be found in a two party, winner-take-all election determined by simple majority. With all other things being equal, the chances of an incumbent party’s re-election would depend on the perceived improvement of the electorate’s welfare during the party’s term of office. However, as only 50% (plus one vote) of all votes are needed to win the election, it is argued that both the incumbent and the challenging party have an incentive to promise a programme of redistribution to the majority of voters from the remainder of society to secure majority support (Olson, 1986). But the size of this redistribution would be small as "those in the majority cannot in general gain from any redistributions in their favour if these redistributions reduce the national income by two or more times as much as the amount redistributed towards the members of the majority" (ibid:171). Furthermore, where political power is bestowed solely through a winner-take-all election, there is little room for the anti-social activities of narrow interest groups. Their only means of influence would be to align themselves with a broad coalition, but in doing so, their redistributive demands would be have to be tempered in order to attract the majority of voters necessary for the coalition to win the election.

A further illustration of the benefits of encompassing organisations can be found in literature concerned with the wage determination process, a subject of much debate in the study of labour markets. Labour economists have paid particular attention to the degree of centralisation in the setting of wages, as this is seen to have an important influence on unemployment, inflation and labour market efficiency (Archer, 1992). Traditionally there have been two contending views on the subject. The first holds that economies with more centralised systems of wage setting perform best. The parties involved in an industry- or economy-wide wage determination process are said to take the unemployment and inflationary effects of their wage demands into consideration. Furthermore, the "wage drift" induced by rivalrous unions trying to outperform each other in multiple plant-level negotiations is eliminated (ibid:213). In the second view, decentralisation is seen to give employers "the efficiency and scope to pay according to the dictates of competition" (ibid:214). As firms in competitive markets will not be able to cover increasing labour costs through product price inflation, they will be more stubborn in resisting wage demands, which will in turn have a moderating effect on unemployment.
In what Soskice (1992) has called a "remarkable contribution" to the wage determination debate, Calmfors and Driffill (1988) argue that both the centralisation and decentralisation position are in fact correct. Their empirical analysis of labour statistics for OECD\textsuperscript{4} countries shows that moderate wage increases and low unemployment is evident in countries where unions and business negotiate at a plant level, but that this is also the case in countries where wages are negotiated for the economy as a whole. However, in situations where wages are determined at an intermediate (industry) level, bargaining is shown to produce poor results. Taken together, these findings "suggest a hump shaped relation between centralisation and real wages (unemployment)" (ibid:15).

The theoretical arguments which Calmfors and Driffill put forward to explain "the hump" draw directly on the idea of encompassing behaviour. Two forces are seen to be at work in the wage determination process: the market power of unions and erosion of real wage gains by price inflation. These forces arise as a consequence of trade unions' attempts to attain their commonly assumed objectives of high real wages and low unemployment (Oswald, 1982).

The market power of unions increases as a greater number of related plants are included in the scope of a single wage agreement. Product demand faced by an isolated plant would be extremely price elastic, particularly if it were part of a competitive industry. Consequently, management can be expected to firmly resist union wage demands in plant level negotiations as increasing labour costs could not be passed on to consumers (who would substitute for lower priced products if they were). Companies which were unable to moderate union's wage demands would fold in the face of competition. On the other hand, when wages are negotiated at an industry level, the prices of all related products would rise uniformly and consumers would not be able to find cheaper substitutes\textsuperscript{5}. It follows that managers would be less tenacious at industry bargaining forums, giving unions greater scope to increase wages.

The second force behind wage determination - that of inflation - is only a concern for those unions representing a sufficient number of workers to observe the price effects of their own wage demands directly (Calmfors and Driffill, 1988). Although the bargaining behaviour of

\textsuperscript{4} Organisation for Economic Co-operation and Development.

\textsuperscript{5} In an open economy, the effect of wage increases on local product prices would obviously be tempered by degree of import penetration into the relevant industry.
plant and industry unions might influence price levels to different degrees. The effects would be imperceivable to union members and leadership. Yet, taken together, the demands of fragmented unions across the economy obviously would be inflationary. It is only in a context of national wage negotiation that the union interest would be sufficiently broad to consider the inflationary effects of nominal wage demands on real wage levels.

From the above discussion it can be said that Calmfors and Driffil's theoretical explanation of the hump is essentially based on three things. Firstly, the belief that market forces will clear the labour market if wages are determined at a plant level. Secondly, the fear that intermediate level bargaining would give trade unions an incentive to behave like redistributinal coalitions, as they would have the power to increase members wages, but would not be concerned about the employment and inflationary effects which their actions would have outside of their industry. And thirdly, the expectation that unions would become encompassing organisations in the context of national bargaining, as wage increases, inflation and unemployment would affect all parties in the union constituency directly.

Calmfors and Driffil's hump shaped hypothesis (1988) has been convincingly disputed by Soskice (1990) on primary empirical grounds, but it is argued here that the incentive-based analysis used in the former remains applicable to the alternative which Soskice presents. In short, the empirical analysis which Soskice undertakes finds the relationship between centralisation and real wages/unemployment to be monotonic and not hump shaped. The difference is explained by Calmfors and Driffill's use of the level at which wage agreements are bargained as a proxy for centralisation in their empirical analysis. Soskice argues that this leads to the incorrect classification of countries which bargain at a low level, and yet have highly centralised wage determination due to the inauspicious fixing of wages by powerful business associations (examples would include Japan and Switzerland, which form the low centralisation tail of the Calmfors and Driffill hump) (ibid:42). In other words, it is the level at which wages are co-ordinated, irrespective of whether this co-ordination is negotiated or unilaterally imposed by business or government, rather than the level at which wage bargaining occurs which is of importance.

Soskice explains the poor performance of decentralised wage determination systems in his findings and the resultant monotonic relationship between centralisation and unemployment, as a consequence of redistributive behaviour at a plant level (ibid:51). Local unions are said to use their bargaining power to push up local wages, particularly in response to relatively
high wage increases in the more profitable firms in the industry. This "local pushfulness", which can be seen as narrow interest behaviour, is said to be partly responsible for the evidence of high unemployment in decentralised systems (ibid:50).

1.5.3 Pareto Efficiency and the Stability of Federations

Beyond the direct advantages which encompassing organisations hold over narrow interest groups, society can also benefit from the fact that encompassing organisations have an incentive to bargain amongst each other over collective action. This has the potential to generate a "pareto efficient" allocation of public goods (that is, equitable to the extent that none of the organisations could improve their position without worsening the position of another organisation) (Olson, 1986:176). Wage bargaining could generate such results. So too could bargaining over policy matters in broad stakeholder forums. However, Olson has argued that encompassing organisations at a national level, in the form of federations of business organisations or trade unions for example, are often insufficiently stable for neo-corporatist bargaining to occur effectively (ibid:180).

A comparison between the examples of political party behaviour and that of trade unions covered above provides a good starting point for a discussion on the stability of broad federations. As we have seen, there is little space for narrow interest groups within a two party winner-takes-all political system. Political power can only be acquired in such a system if a party is capable of winning the majority of votes. If a party was seen to be under the influence of narrow interests, it would not appear attractive to the electorate and would not come to power, leaving the deleterious demands of its associated interest groups unmet. The position of trade union federations or business associations is different in that the affiliates or "branch organisations" of which they are composed have power in their respective sectors which is prior to their affiliation to the encompassing structure (ibid:183). Branch leadership might thus face incentives (to maximise wages or profits in their sector by restricting the market for example) which lead to actions which are contrary to the interests of the federation.

There is a further possibility that the federation might be exploited by internal lobbies or caucuses, which could highjack the national power accorded to federation leadership to further their own narrow interests. Olson expects that as it became clear to the branches in
the federation which were not involved in such exploitative behaviour that their support was permitting narrow interests to use the federation at their expense, mass disaffiliation would soon follow and the federation would collapse (ibid:185).

A serious shortcoming of Olson’s discussion of the sustainability of broad federations is his failure to consider the role that selective incentives can play in holding them together. This is most puzzling, given the importance accorded to selective incentives in his earlier work on the motivations of individuals in forming organisations (1982). There is little reason why this logic cannot be extended to the motivations of organisations in forming federations. In light of earlier discussion it should be clear that the benefits of public goods (such as a prosperous economy), provided (in part) by broad federations, would be insufficient to ensure that the affiliates of "branches" of these federations contributed to their provision (through refraining from redistributive actions, for example). Yet, the federation might be able to secure the compliance of its affiliates by providing additional incentives, either positive (financial and logistical support, access to information) or negative (denial of such services). The logic of selective incentives could also be taken one step further to the national bargaining level, where the state could use positive or negative incentives to ensure the compliance of different federations to overarching national goals.

1.6 SUMMARY

Collective action is seen in the theory of public choice as a means of securing goods which cannot be supplied through the market. Non-market organisations such as governments, business associations and trade unions are able to provide these goods but only if their constituencies are willing to contribute to the cost of providing them. Given the incentives to free-ride inherent in the process of collective good provision, there is little reason for the individual to make such contributions. For a non-market organisation to exist as a supplier of collective goods, selective incentives would therefore have to be found which could be applied to the organisation’s members on the basis of whether they had contributed to the cost of the goods provided.

Without selective incentives, interest groups will not evolve into organisations which are capable of providing collective goods. As selective incentives would be available to some groups and not to others, it is unlikely that the organisations in existence at any point in time
would be representative of all interests across society. Policy bargaining between existing organisations could thus result in socially inequitable outcomes.

Once established, many organisations would face incentives which would lead them to behaving in a socially detrimental manner. In particular, organisations representing narrow interests will have little reason to contribute to social prosperity and every reason to maximise the net welfare of their constituencies at the expense of broader society. However, through changing the structure of the institutions in which interest organisations interact, political reform could influence organisational behaviour for the better.

By encouraging the formation of broad federations of organisations and promoting negotiations between them, narrow deleterious behaviour could be constrained and collective contributions to social welfare promoted. Although internal lobbying and conflict could lead to instability in such federations, it might well be possible to maintain internal coherence through the application of selective incentives to branch organisations.
CHAPTER 2 - Collective action and social welfare: public good provision and deleterious redistribution in South African policy forums

2.1 INTRODUCTION

Increasing importance has been accorded to the role of forums in the process of policy development in South Africa over the past five years. Concerns that these forums could degenerate into "elite bargaining" between the well-organised sectors of society to the detriment of marginalised interests and broader society have also been expressed (Business Day, 20 February 1995:10). Using the framework developed from public choice theory, this chapter assesses the past experience of policy forums in South Africa and considers the conditions under which future forum bargaining could lead to broadly beneficial outcomes, rather than serving the interests of narrow organisations.

The subject matter considered in this chapter deals primarily with national forums which have drawn their participants from key stakeholders in the South African economy including organised labour represented predominantly by the Congress of South Africa Trade Unions (Cosatu), business represented by the umbrella body Business South Africa (BSA), and the government. The experience in the National Economic Forum (NEF) and the prospects of its successor, the National Economic, Development and Labour Council (Nedlac), are the focus of our attention.

In order to understand what is meant by collective action in the local context, the following section looks at the socially desirable collective goods which South African federations and organisations have the potential to supply and at the deleterious redistributational activities which they have engaged in in the past. A brief history of bargaining in the NEF and other related forums is outlined in section three. The fourth section examines the internal capacity and dynamics of organised business and labour with regards to their participation in these forums. Finally, a more detailed example of the policy forum negotiations, that of the South Africa's GATT6 offer, is considered in section five, with the intention of identifying how various interests were accommodated in the agreement.

6. General Agreement on Tariffs and Trade.
2.2 WHAT COLLECTIVE ACTION COULD DELIVER: DELETERIOUS REDISTRIBUTION AND PUBLIC GOOD PROVISION

The ultimate objective of reforming the structure and behaviour of non-market organisations would be to improve the welfare of society. The South African economy has performed poorly in this regard in recent years - real output has contracted over the past decade by an average of 1.8% per annum (SARB, 1994); unemployment has reached chronic proportions with official statistics showing 32.6% of active labour market participants without work (Business Day, 31 March 1995:1); income distribution remains one of the most inequitable in the world (Wilson and Ramphele, 1989); and there are severe racial disparities in measures of human development (UNDP, 1994). Against this backdrop, the questions that need to be asked for our purposes would be: to what extent can the causes of South Africa's economic malaise be found in the behaviour of interest organisations; and, how could such organisations improve the situation through collective action.

2.2.1 South African organisations as redistributional coalitions

Two forms of collective action aimed at socially detrimental redistribution were identified in the previous chapter - market restriction through collusion and market restriction through lobbying government. This section considers a few examples of both forms of collective action, looking at trade union activity and conglomeration in the case of the former, and tariff and export promotion policy in the case of the latter.

Labour market restriction by trade unions is often cited as a major constraint on the South African economy, in terms of both competitiveness and employment creation (World Bank, 1994). A review of product wages shows that the statistic for black workers grew far faster than the average for all racial groups over the eighties (1.5% as opposed to 0.2%), a time marked by the rapid increase in unionisation and industrial action (Nattrass, 1992; Baskin, 1991). It could however be argued that unions made a positive contribution to social welfare in this period by reducing inequality and poverty.

The issue of whether foreign investment and local export competitiveness in the current South African context will be dependent on wage restraint has been hotly debated in recent months (Von Holdt, 1994; Coleman, 1994; Nattrass, 1994; Bethlehem & Makgetla, 1994). For our
purposes, it will suffice to say that issues of productivity are rarely a consideration in union wage bargaining and using shopfloor power as the sole criterion for wage demands must lead to socially damaging redistribution at some point.

Restriction in product markets is a second area of major concern in the South African economy. Nearly 90% of the value of the Johannesburg Stock Exchange is held by six conglomerates (Turp, 1994) and there is strong evidence to suggest that price fixing and market sharing (termed "conglomerate forbearance") is commonplace between these interests (Joffe, Kaplan, Kaplinsky and Lewis, 1993:21). The vulnerability of local markets to collusion is exacerbated by weak and ambiguous competition policy (Fourie, 1987). Moreover, as shown by a recent case in which a number of major furniture removal companies were found guilty of collusive tendering, even where the government's Competition Board is able to make a ruling against restrictive practices, the minimal penalties which it is capable of meting out are hardly a deterrent to engaging in such activities (Business Mail, 10 February 1995:1).

South African trade policy provides some of the best examples of market restriction through lobbying government. Prior to the introduction of a new tariff regime based on GATT strictures, the country had the world's second most complicated tariff structure, having "35 ad valorem tariffs, 2,865 items with specific / formula / other types of rates, plus four levels of import surcharge rates" (Joffe et al, 1993:17). This plethora of tariff measures attests to the fact that under international isolation, many South African companies were able to secure import protection from the government on demand.

In an attempt to reduce the anti-export bias which resulted from the insulation of local markets, the government introduced substantial subsidisation measures for exporters under the General Export Incentive Scheme (GEIS). The scheme has been criticised for its great cost (approximately R1.5 billion per year (Merg, 1993)), and, more pointedly, for the fact that its benefits often flow to firms "who would have exported anyway" (Joffe et al, 1993:17). To this extent, GEIS could be seen as an example of direct redistribution benefiting interest groups at the expense of broader society.

There are many other examples which could be cited of collusive and rent seeking behaviour on the part of South African interest organisations. South African business in particular has had informal but highly effective means of influencing the government in the past, both in
pursuit of favourable legislation and to defend uncompetitive practices. Schreiner refers to this as "laissez faire lobbyism" (1994:14). He fears that, in the absence of formal institutions of interaction with government, this means of influence will become the norm for all interest groups.

By formalising the relationship between state and interest organisations in policy bargaining forums, a degree of transparency could be introduced into the lobbying process. Demands of government would have to be made in the presence of competing interest groups, possibly including parties who would be negatively affected by the resultant policy. The government would thus be forced to take a far more encompassing range of concerns into consideration before making policy decisions. In addition, although it is highly unlikely that formal structures would provide equal levels of influence over policy decisions for different interest organisations, they could at least lower the costs of participation for parties which have traditionally held no sway over national policy (Baskin, 1993).

2.2.2 Providing Public Goods: the Potential of Encompassing Organisations

Industrial peace is perhaps a central "public good" which many would expect to arise out of the development of more encompassing union and business organisations and institutions in which they could interact. The surge of strikes immediately after the 1994 election led to calls for an accord between labour, business and government to curtail industrial action which was seen to be a potential constraint on the transformation of local industry and a deterrent for foreign investment (Von Holdt, 1994; Nattrass 1994). This line of argument has been strongly resisted by Cosatu which has stated that more labour militancy and not less would be necessary if the social disparities in the economy are to be addressed. In Cosatu's view, the issue of wage restraint and an accord on industrial action could only be addressed after the quality of life for large numbers of working people had been significantly raised through the programmes envisaged in the government's Reconstruction and Development Programme (Coleman, 1994).

Viewing unemployment at least in part as the consequence of market failure would imply that its alleviation could be seen as a further public good which could be provided through collective action in policy forums. Labour, business and government would all benefit from job creation through increased social stability and job security. To the same extent they could
contribute to its provision through changing practices which restrict the creation of jobs. Wage restraint by unions would form part of this, as would a commitment to labour intensive technology by business and the provision of public funds for subsidising job creation.

Less controversial areas where negotiation between the major stakeholders in the economy could lead to significant welfare benefits would include reforming restrictive legislation (as outlined below in the case of trade policy) and addressing other areas of chronic market failure. Technology and training are two clear examples of the latter.

In terms of technological failure, while South Africa receives more academic citations for scientific research than Taiwan, spending on commercial research and development is very low (0.88% of gross domestic product (GDP) compared to 2.9% for the USA and Japan in 1988). Moreover, an abnormally large proportion of this spending goes to the military (Kaplan, 1991).

The collapse of vocational training in the workplace is one of the most striking example of market failure in the South African economy. It also presents strong possibilities for socially beneficial collective action by major stakeholders. Only 2% of local GDP is spent on training "compared to 5% in other countries" (NEM, 1993:5). The massive decline in the training of artisans indicates the impact of this underexpenditure. In 1992 only 5,588 people completed artisan training compared to 12,933 in 1985 (Finance Week, 21 July 1994:18).

Both the provision of training and technological innovation are widely acknowledged as having strong public good characteristics (Soskice, 1990; Arrow, 1962). South Africa's poor performance in terms of these factors can be seen as the consequence of strong incentives to free ride in their provision through the poaching of trained staff and the imitation of innovations. By committing themselves to contributing to costs of these goods in negotiating forums, stakeholders in the South African economy might be able secure their provision collectively.
2.3 THE EVOLUTION OF POLICY FORUMS IN SOUTH AFRICA

If South African interest groups are to behave as encompassing organisations, limiting the extent of deleterious redistributive behaviour and enhancing the provision of public goods, it will be necessary to give some consideration to the political framework in which they operate. This section looks at the process from the late eighties which lead up to the creation of Nedlac, a body which, as will be discussed later, could provide a suitable framework for the promotion of encompassing behaviour. There are three phases which are identifiable through this period: the first involves the build up to the creation of the NEF and the initial activities of the forum; the second marked the transition from the NEF and Nedlac, where some of the internal problems in the former become apparent, particularly in its interaction with government. The third phase, that of policy negotiation in Nedlac has yet to start, but some comments can be made of the structure and participation envisaged in the new council.

The emergence of policy forums in South Africa cannot be seen in isolation from broader political transformation. The changing legitimacy of government through the recent period of transition to democracy has been of major importance, both in terms of the desire and willingness of stakeholders to participate in these forums, and in terms of their ability to block and initiate the creation and amendment of policy.

It should be clear from what follows that many of the developments in this area have been driven by labour. Given the incentives to intervene in the economy to further their members interests, the trade union movement faced a unique opportunity in the political transition to establish its position for the first time as a significant contributor to policy formulation. As stated earlier, business has always had influence over policy through informal lobbying. Through the creation of policy forums, a broader range of interests have the potential of gaining such influence in a formalised setting. With the uncertainty surrounding policy formation in the context of political transition, business and the old government had also had strong incentives to participate in the formalised process, as there was a real danger that non-participation would exclude them the policy making entirely.
2.3.1 The Early History of South African Policy Forums

The first tripartite accord "in modern South African history" evolved out of resistance to the amendments to the Labour Relations Act (LRA) proposed by the National Party government in 1988 (Patel, 1993:4). There were three dimensions to the proposed changes - right to strike was restricted, union gains on issues such as job security were reversed and industrial action was constrained by making unions subject to punitive damage claims by employers for lost production (Baskin, 1991).

Cosatu waged an aggressive campaign against the amendments which culminated in a general strike. Intense bilateral negotiation between business (represented by the South African Employers Consultative Committee on Labour Affairs (Saccola)) and labour representatives over the amendments resulted in the ratification of the Laboria Minute in which both parties agreed to revert to the provisions of the old LRA. This in turn led to the Labour Relations Amendment Act of 1991 which removed the offending sections of the earlier Act (Maree, 1993). The fact that labour and business were able to ratify of the Laboria Minute, which effectively circumvented the policy reforms of the government, clearly demonstrated the inability of government to impose changes in legislation on the labour movement, even at this relatively early stage in the history of forum politics.

From this point, a number of structures were broadened to include proper representation from business and labour. The existing National Manpower Commission (NMC) and National Training Board (NTB) were restructured to incorporate labour and business representatives with government on a tripartite basis. One of the conditions laid down by Cosatu for its participation in the former was that "no draft legislation related to labour should be put before parliament unless it has been through the NMC" (ibid:32). In the National Training Board, business and union interests rejected the results of the earlier National Training Strategy report, and argued that a new strategy, based on the research of a representative task team, needed to be developed (NTB, 1994).

With the unbanning of the African National Congress and the initiation of constitutional negotiations, the ability of the National Party Government to fulfil the legislative and executive functions of government were further circumscribed. At this point, labour made the demand for a direct role in the policy making process through two general strikes. The first, in November 1991, ostensibly aimed at the introduction of Value Added Tax (VAT) on
food, was nonetheless driven by a more general demand for a macro-economic negotiating forum (Naidoo, 1991). The second, in August 1992, was part of a Cosatu campaign for peace, democracy and economic reconstruction, borne out of frustration at the lack of progress in the transitional negotiations (Patel, 1993). Following the threat of an income tax boycott, government acceded to labour’s demands and the National Economic Forum (NEF) was launched in October of 1992 (Maree, 1993).

The participants of the NEF were drawn from delegates of organised business, organised labour and the governing authority of the day - fifty five unions with two million paid up members and seventeen business organisations were represented (Patel, 1993). The structures of the forum were intended to be simple, comprising a fifteen person management structure (called the Process Committee), and two negotiating structures, being the Short-Term and Long-Term Working Groups. Issues tabled in the initial sessions of these structures covered the issues of job security, job creation through a R49 million public works programme, principles applicable for foreign investment and means of attracting it, the establishment of export processing zones and the need for a trade policy working group.

Encouraged by the establishment of the NEF, a number of other forums were set up: in specific policy areas (including the National Housing Forum, the National Electricity Forum, the Liquid Fuels Task Force and the Local Government Negotiating Forum), in industries (Clothing & Textile, Auto and Electronic) and in regions (the various regional development forums) (ibid:11).

2.3.2 Problems in the Operation of Policy Forums

The general assessment of the National Economic Forum has been that it achieved little (Business Day, 20 February 1995). Apart from the GATT negotiation which will be examined in more detail below, there are few examples of concrete programmes or policies which were successfully formulated and implemented by the structure. A strong argument put forward to explain these shortcomings is that "it was impossible to reach major agreements in the knowledge that the government negotiating partner was about to change" (ibid:10). A second argument is that there was little common understanding in the first place as to what the forum was intended to achieve. Commenting on interviews with labour and (at that stage National Party) government leaders on the NEF, Tito Mbonweni observed that:
It is quite clear that they approach the NEF from completely different angles … [Government] sees it as a forum to reach consensus. Cosatu sees it as a negotiating body which [would generate] binding agreements. It seems that these key forces in the NEF have glossed over a fundamental difference about the status of deliberations. (1993:56)

Even after the political transition of April 1994, there were still strong indications that the government approach to policy formation was still strongly at odds with the process envisaged by other parties in the NEF. Seemingly unilateral interventions by the Minister of Trade and Industry in the clothing & textile and auto sectors which rode roughshod over painfully negotiated tripartite agreements7, led Nattrass to comment that:

The new government is sending out a clear message that interest groups will be dealt with more by technocratic injunction than through consultation … the "corporatist current" … might well be in retreat. (1994:21)

A similar conclusion could be drawn from the less publicised experience of the restructuring of GEIS. Parties in the Short Term Working Group of the NEF spent much time negotiating how this export incentive scheme should be changed, only to be told that the Department of Trade and Industry had unilaterally decided to phase it out.

7. Manuel had rejected the findings of Swart report, a document drawn up by a tripartite restructuring forum in the clothing and textile industry, which recommended tariff reductions over 10 years and a publicly funded R4.5 billion restructuring package (Financial Mail, 2 September 1994:67). In the auto sector an immediate reduction in import duties on passenger cars from 115% to 80% was announced while the industry was on strike. The Sunday Tribune reported that "the move has been seen as a direct government intervention in the strike, designed to bring the union to heel" (4 May 1994:1). Cosatu general secretary, Sam Shilowa "condemned Trade and Industry Minister Trevor Manuel’s move to slash [these] tariffs, calling it ill-timed and unilateral" (Business Day, 6 June 1994:1).

The rejection of the Swart report was subsequently justified on the basis that "government did not have the funds to back its proposals" (Financial Mail, 26 October 1994:77). In the case of the tariff reduction in the auto sector, Manuel submitted that the changes had been recommended by the Motor Industry Task Group (a body on which labour is represented) before the election - the fact that the amendment, having been processed through government, happened to be announced during a strike was purely due to chance (Business Day, 5 August 1994:1).
2.3.3 The Prospects of Nedlac

Two further causes of the limited effectiveness of the NEF can be identified. Firstly, there was significant overlap of the functions of NMC and the NEF. In the case of Cosatu, this stretched the already limited capacity of the organisation’s delegates and mandating systems to breaking point (Naidoo, 1993). Secondly, unlike the NMC, which was a statutory body, the NEF was never anything more than a forum held together by the voluntary agreement of participants, which perhaps explains the unwillingness of certain parties to take the structure seriously. The formation of the Nedlac which merged the functions of the NMC and NEF into a single body established in statute, should address both of these concerns.

Nedlac was formally established on 18 February 1995. If the profile of the launch, attended by various foreign and local dignitaries and addressed by the President Mandela, is anything to go by, it is clear that the Council will be of far greater importance than either of its predecessors (and to the same extent, there will be high expectations of what the Council can deliver). While the issues which will be dealt with at Nedlac have yet to be worked out, it would be instructive to look who will be participating in the council and how it will be structured.

The first point of departure for Nedlac is the fact that four constituencies will be represented within it, being: labour, business, government and community/development organisations. The extension of Nedlac to include broader community representation is a welcome break from exclusive tripartitism of the NEF. The motivation for the exclusion of other parties in the NEF was that business, government and labour representatives were said to represent a sufficiently broad fraction of society to ensure that the outcomes of policy bargaining were in the general interest8 (Keys, 1994; Baskin, 1993).

All constituencies are to have equal representation of eighteen delegates on the Executive Council which would meet quarterly and "would include a core of Ministers and Deputy

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8. For example, it is commonly asserted by union leadership that the interests of the working class coincide with those of the poor (Shilowa, 1994; Patel, 1994). While this may be the case in some instances, Schreiner rightly points out that choices made by organised labour between tax reductions and improved social security, lower food costs and higher rural wages and tariff protection and lower consumer goods costs "will profoundly alienate or marginalise other sections of their class" (1994:15).
Ministers and their Director Generals" representing government (Nedlac, 1994:2). Below the executive will be four Chambers: Trade and Industry, Public Finance and Monetary policy, Labour Market and Development. These will meet regularly and negotiate the details of policy under consideration.

Unfortunately, community representation in Nedlac is restricted to the Executive Council and to the Development Chamber. A prerequisite for the inclusion of any community organisation is that it "should be able to represent an organised national constituency and be able to obtain mandates" (ibid:5). As argued in the previous chapter, the objective conditions necessary for organisation are often not readily available to marginalised groups. Schreiner’s suggestion that substantial material resources be made available (to compensate for the lack of "natural" selective incentives) could assist in the organisation and participation of these groups, making the policy negotiation process far more encompassing (1994).

2.4 THE CAPACITY AND INTERNAL DYNAMICS OF POLICY FORUM PARTICIPANTS

Olson’s assertions concerning the instability of encompassing federations were outlined in the previous chapter. Given the incentives which branch organisations face, he argued that the national power of federations could be used to further the narrow interests of a single affiliate at the expense of affiliates in general (and of broader society). Were this to happen, it was predicted that the resultant dissatisfaction on the part of affected affiliates might lead to the federation’s collapse. A counter argument was put forward that, as long as selective incentives could be found with which to discourage narrow deleterious behaviour, there was no reason that affiliate behaviour could not be kept in line with the encompassing interest of the federation. This section attempts to apply this logic in analysing the two major constituencies outside of government in South Africa’s policy forums.

The employer organisations which represented business interests in the NEF and other structures are widely regarded to have been very weak (Baskin, 1993; Schreiner, 1994; Von Holdt, 1994). This was clearly demonstrated by Saccola’s inability to secure the support of its membership for Cosatu’s Peace, Democracy and Reconstruction Strike in 1992, despite agreement at a leadership level (New Nation, 24 February 1995:7).
The failure of business to present a united front is largely due to the high degree of fragmentation of business representation and the limited influence of the federal structure, Business South Africa (BSA), over its 18 affiliates. This was clearly demonstrated by the withdrawal of the National African Chamber of Commerce (Nafcoc) from BSA, following a disagreement on the allocation of seats to the various Nedlac structures. The Chamber, which is the major representative of black business in South Africa, claimed that BSA was "elitist" (Business Day, 20 February 1995:10).

Other members of BSA such as the Afrikaner Handelsinstituut, and the South African Chamber of Business (Sacob) provide various services which could be regarded as selective incentives. They could thus be used to enhance the coherence of business representation. Sacob, which is the largest employer body in the country representing over 40 000 businesses provides a range of services to assist its members "to adapt to changing political circumstances, to face up to increasing competition ... and to take advantage of export opportunities" (Sacob, 1994:4). Unfortunately, these are not well valued by membership - in a recent survey of the attitudes of business to supporting institutions less than 50% of respondents used Sacob services and of these only than 35% regarded them as "very effective" (Monitor, 1994:65).

On the labour side, concerns have been raised about the representivity of unions and their capacity to participate effectively in forums (Naledi, 1994). These issues are of direct concern to the question of whether labour representation in Nedlac can be regarded as encompassing, both in terms the number of workers covered by union federations and in terms of their ability to bind membership to agreements reached in the Council.

In 1992, approximately 37% of the total South African workforce in the formal sector belonged to a trade union. While this represents the highest unionisation rate of any developing country, it is far behind countries such as Norway and Germany (ibid:24). The national structure of labour organisation is fragmented, but with close to 50% of all trade union membership, Cosatu is clearly the dominant federation. Recent unity talks and the prospect of unions disaffiliating from other federations and joining Cosatu indicate that the

9. At the recent annual conference of the "moderate" white collar Federation of South African Labour (Fedsal), the South African Society of Bank Officials (with a membership 80 000, Fedsal’s largest affiliate) urged the federation to merge with Cosatu. It is speculated that failing this Sasbo will disaffiliate from Fedsal and join Cosatu independently (South
trend is towards closer co-ordination (ibid:66).

Relations within Cosatu are very different to those in evidence in the national federations of countries such as Sweden and Austria which pioneered "corporatist" participation in policy making. Despite the coherent image which Cosatu has been able to project, the federation has a very decentralised structure. The independence of affiliates is entrenched in the constitution, and guarded jealously in practice - "attempts by the federation to intervene in, and attempt to resolve, internal union disputes have invariably been rebuffed" (Baskin, 1993:27).

Cosatu affiliates tend to be financially self-sufficient. In the absence of foreign funding most would be able to support themselves on income from membership subscriptions (Naledi, 1994). The same can not be said of the federation. In 1992, only 35% of Cosatu's budget was covered by affiliate subscriptions (Finnemore & Van Der Merwe, 1992). The federation is aiming for self-sufficiency but it is unlikely that this will be attained in the near future. In Scandinavian countries, federations derive their power over affiliates not only through their privileged access to government and policy determination, but also from their "real financial muscle", which results from the central control of strike funds and other influential resources (Baskin, 1993:27).

Beyond the issue of finance, Cosatu has developed a number of service centres in recent years which could bolster the federation's influence over its affiliates. These include the National Labour and Economic Development Institute (Naledi) which provides research services for the federation and its affiliates, the Metrics Project which has developed computer systems for union use, and the Centre for Democratic Communications which produces media. In the future these centres could strengthen the federation significantly, but at present affiliates do not have the capacity to fully utilise the services which they offer. Nor would it be a problem for most of them if these services were withdrawn.

Many of the weaknesses which have been identified in Cosatu are evident in the problems which the federation experienced in its participation in the NEF. Firstly, the federation lacked the technical expertise necessary to engage with business and government on the range of issues considered in the forum (Baskin, 1993). Secondly, there was little communication
between labour representatives on the NEF and their constituencies (Patel, 1993). This is clearly illustrated by a survey conducted amongst organised workers two weeks before the April 1994 elections. The survey "found growing signs of democratic rupture between leadership drawn into corporatist-type tripartite structures and the rank and file ... very few of the survey respondents even knew what the National Economic Forum was, let alone participated in policy formulation around it" (Webster and Ginsburg in the Business Day, 27 May 1994:14). Unless serious efforts are made to reduce the distance between union members and leadership, the effectiveness of labour's participation in Nedlac, particularly in its ability to bind membership to agreements, will be severely undermined.

2.5 CAN POLICY FORUMS DELIVER? THE CASE OF THE GATT AGREEMENT

The successful negotiation of the GATT agreement has been cited as one example where the NEF was able to reach agreement on policy of substantial significance for the economy (Business Day, 20 February 1995:10). In this section the process and outcomes of this negotiation are examined in some detail, particularly with respect to labour's participation, in order to understand the dynamics which were at work in policy bargaining at the NEF.

In 1993, the NEF took responsibility for formulating a new tariff schedule to comply with the Uruguay round of GATT (the schedule was referred to as the "GATT offer") (Hirsch, 1993:42). This exercise was guided by a number of principles. Firstly, to simply the application and administration of the schedule, the number of tariff lines was reduced from 12800 to 1000. Secondly, tariff maximums were specified for consumer, intermediate and capital goods, and raw materials, in such a way as to encourage production in more value added sectors and to secure the access of producers to near world priced inputs. Thirdly, special arrangements were made for the auto and clothing and textile sectors. The schedule was submitted to GATT at the end of 1993.

The GATT offer established "binding" levels for local tariffs. South Africa was still free to choose tariffs below these levels and to work out how it wanted to introduce the new tariffs over the stipulated five year phase-in period. The NEF drew up a second schedule within the bounds of the initial offer which specified how tariffs would be phased down to the chosen levels. This was published in July 1994 and a call for comment from relevant parties was made. The second schedule and comments were then submitted for the consideration of the
Board on Tariffs and Trade (BTT), before being sent to the Minister of Trade and Industry for approval.

From the outset, the participation of organised labour in the GATT negotiation seemed to be informed by an understanding of the inevitable need for trade reform, despite the possible short-term consequences for employment in declining industries (Patel, 1994). Cosatu negotiators were involved in all steps of the process outlined above both in the NEF and through the task groups which considered the clothing and textile and auto sectors. In addition, individual unions had the opportunity to comment on the second schedule before it was submitted to the BTT.

It is clear that only those unions directly involved in tariff negotiations for their sectors, such as the clothing and textile and metal unions, were fully aware of the implications of Cosatu’s negotiation of the GATT agreement. In an apparent bid to defend themselves against the possible outcomes of import tariff reduction (job loss in particular), Cosatu leadership made a number of public pronouncements against GATT. A declaration tabled at the 1994 Cosatu congress stated that the federation would "resist vigorously any tariff reform which is not preceded by negotiation with unions" (South African Labour Bulletin, 18:5:42). As the entire tariff schedule was negotiated with the unions this declaration is somewhat spurious. More recently the Cosatu General Secretary stated that "Cosatu will oppose the reduction of tariffs if it led to widespread job losses" (Business Day, 8 November 1994:3).

The combination of weak national leadership and the existence of well organised sector level structures presents a dilemma for both unions and business which is likely to put limits on the types of issues which Nedlac will be capable of addressing. As Baskin points out:

So long as the easier issues are dealt with - such as a public works programme - consensus can be reached. But when issues are raised which affect various industries differently, other dynamics are likely. (1993:29)

Without fundamental improvements in the coherence of business and labour federations, the negotiation of industry specific problems, the resolution of which does not coincide with the broader interest, will debilitate national policy forums. Moreover, in this context, industry level unions and employer organisations may well join forces to protect their common
interests. In public choice terms, this translates into the collapse of encompassing organisation and interaction and the ascendancy of redistributional coalitions across constituencies.

10. Baskin believes that "the tendency to such an approach is already visible in those industries whose unions and employers have embarked on restructuring talks" (1993:29).
CONCLUSION

The conceptual framework of public choice theory, and the work of Olson in particular, has provided a valuable framework for asking certain questions about South African policy forums. From this it has been argued that the dangers of Schreiner’s "laissez faire lobbyism" can be avoided in South Africa through the use of forums such as Nedlac which will (hopefully) force would-be lobbyists and state officials to take a broader, more encompassing view of the consequences of their actions. Within such forums, and even within the organisations which make them up, it has been shown that there is still the potential for socially deleterious behaviour motivated by narrow interests. Through the application of selective incentives to redistributive coalitions within forums or federations, however, it might be possible to influence their behaviour so that it coincides with the interests of broader society.

In our analysis of South Africa, there are two critical areas where selective incentives are needed. The first is at the level of currently unrepresented interests in society. Schreiner's ideas about supplying such groups with resources to assist them in organising effectively would be one means of broadening participation in policy formation. However, if policy forums are structured in such a way as to encourage the participation of groups outside of the "golden triangle" of labour, state and business, it might well arise that, encouraged by the possibilities which participation in policy formation present, currently unorganised interests will find selective incentives of their own with which to organise.

The second area in dire need of selective incentives is at the level of business and labour federations. Our focus here has been on Cosatu. We have seen in the example of the GATT negotiation how weak national leadership and strong branch organisation can lead to outcomes which are not in the interest of the federation as a whole. While it is unlikely that affiliates who are excluded from the benefits of narrow interests activities within the federation (and who find themselves bearing the costs of such activity) will pull out of Cosatu, deep seated dissatisfaction amongst a significant number of affiliates as a consequence of such a scenario could cripple the federation.

Cosatu leadership needs to develop an encompassing vision of the economy which informs the federation's participation in Nedlac. But in order to secure the contribution of affiliates to the painful changes which policy reform might involve, Cosatu will need to develop
selective incentives.

On the overall benefits of policy forums, it may be the case that organised interests in the newly established Nedlac face incentives which lead them to developing policies which are socially deleterious. However, it is only through open and transparent negotiation (as will hopefully happen in Nedlac) that the effects of such policies could be challenged and acted on. The alternative of laissez faire-lobbyism behind closed doors would massively increase the cost of information on policy-making and would remove the capacity of all but the best-resourced and most well-connected organisations from furthering or protecting their interests.
REFERENCES


