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Nicoli Nattrass

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A South African Variety of Capitalism?

NICOLI NATTRASS

This paper explores the South African political economy through the lens of a variety of capitalism (VoC) approach. It argues that attempts were made in the early post-apartheid period to forge a more social-democratic and co-ordinated variety of capitalism, but that this floundered as the government adopted neoliberal macroeconomic policies against the wishes of organised labour, and as black economic empowerment policies further undermined an already racially-fraught business sector. Organised labour was able to push for, and maintain, protective labour market policies – but this came at the cost of growing policy inconsistency notably with regard to trade liberalisation which, in the presence of growing labour-market protection, has exacerbated South Africa’s unemployment crisis. Unemployment remains intractable (and with it inequality) and corruption/patrimonialism appears to be a growing problem.

Keywords: post-apartheid, capitalism, economic policy, unemployment, black economic empowerment, organised labour, profitability

Introduction

This paper argues that as South Africa began the transition to democracy, attempts were made to forge a more social-democratic and co-ordinated form of capitalism but that this floundered as the post-apartheid government adopted neoliberal macroeconomic policies. Black economic empowerment (BEE) policies subsequently undermined an already racially-fraught business sector and opened the door for growing patrimonialism and corruption. Organised labour achieved gains in terms of improved labour standards and the extension of industrial-level wage bargaining – but this came at the cost of growing policy inconsistency. Notably, trade liberalisation in the presence of strong labour-market protection and rising real wages exacerbated South Africa’s unemployment crisis.

The problem of policy inconsistency is highlighted by the varieties of capitalism (VoC) approach, its key insight being that economic growth is shaped by the institutional/policy context and promoted most effectively when these are consistent with either liberal-market or co-ordinated ideal-type ‘varieties’ of capitalism. We argue that South Africa has elements of both ideal types and is plagued by
policy inconsistencies at the heart of the state. Although many of the ideas and practices during South Africa’s democratic transition suggested the possibility of a post-apartheid political economy shaped by social accords/tripartite negotiation, this impetus floundered because the state preferred to act unilaterally with regard to macroeconomic policy, business was divided and preferred bilateral engagement with government and organised labour had a strong ideological preference for managing capitalism through a developmental state tasked with promoting wage and productivity growth.

Varieties of capitalism: South Africa in comparative context
The VoC approach draws a key distinction between two ideal types: ‘liberal market economies’ (LMEs) and ‘co-ordinated market economies’ (CMEs) (see Hall and Soskice 2001; Hall and Gingerich 2009). In LMEs, seen as approximated most closely by North America, the United Kingdom, Australia and New Zealand, firm strategies are mediated by competitive markets: large stock markets and regulatory regimes facilitate hostile take-overs, thus encouraging managers to be particularly sensitive to current profitability; whilst fluid labour-markets with limited employment protection incentivise workers to invest in general skills that can be transported to other jobs. By contrast, firms in CMEs (seen as approximated most closely by Germany and the Scandinavian social democracies) operate in an institutional environment which provides greater ‘voice’ for organised labour and favours incremental innovation and strategic collaboration between firms. Generous welfare and retraining policies on the part of government incentivise workers to make the necessary investments in firm-specific skills. The key insight of the firm-centred VoC approach is that business in CMEs accepts higher labour costs (and taxation) so long as the system delivers the necessary skills, productivity growth and long-term finance needed to operate profitably in this institutional and policy context. Where these synergies are not evident, as in the more ‘mixed market economies’ (MMEs), economic growth has been slower than in either the CMEs or LMEs (Hall and Gingerich 2009).

The strong policy implication of VoC analysis is that institutions matter for the type and pace of economic growth. As Hall and Soskice note, firms face a set of institutions which are not ‘fully under their control’ and that companies can be expected to gravitate towards strategies that take advantage of the opportunities provided by these institutions (2001: 15). This raises the tantalising prospect of government being able to affect the national VoC by changing the institutional environment. For example, in the 1950s when Germany introduced legislation to enhance worker’s rights on the shop floor, employers expressed strong opposition – but once these institutions were in place, they developed production strategies oriented towards high-value added production which made a virtue out of the necessity of greater worker voice (Streeck 1992). As discussed below, this idea, that governments can create such a ‘win-win’ situation through institutional design, is powerfully evident in South Africa today.

The VoC approach has been criticised for its tendency towards static and functionalist analysis (see Boyer 2005; Schmidt 2009; Becker 2012). One way to avoid
this danger is to highlight the political processes shaping the nature of institutional configurations and co-ordination As Hall and Thelen observe:

active support for a specific mode of co-ordination must be mobilised on a relatively continuous basis from actors who are conscious of the limitations as well as the advantages of any particular course of action. Achieving and maintaining coordination usually involves the exercise of power, because forging and maintaining particular institutional arrangements creates winners and losers, notably on both sides of the class divide. (2009: 13)

But politics is shaped not only by conflicts of interest and accordant mobilisation. The way these interests are framed in ideas and discourse by economic and state actors is of central importance, especially at critical junctures where policymakers and stake-holders are not sure how best to understand and pursue their interests. In this regard, discursive institutionalism is useful in that it ‘calls attention to the ways in which political actors’ ideas serve to (re)conceptualize interests and values as well as (re)shape institutions’ (Schmidt 2009: 530). These ideas are, in turn, embedded in different discourses – notably ‘communicative discourse’ between the state and the general public, and ‘coordinative discourse’ within the state between policy actors (Schmidt 2008: 309–11). We touch on these issues below with reference to the South African policy debate in the post-apartheid period.

The usefulness of the VoC approach has also been challenged by the substantial institutional convergence – notably falling levels of wage bargaining – that has taken place in Europe since the mid-1990s. However, in a recent review of collective bargaining arrangements, Hayter \textit{et al.} observe, with the exception of Germany, Spain and Greece, European wage bargaining systems are adapting rather than weakening (2011: 235). Even where the dominant level of wage bargaining has fallen in the CMEs, multi-level bargaining is the norm and this has been consistent with fairly stable levels of coverage of collective bargained agreements. In other words, bargains at industry- or firm-level often take place within a floor or framework set at higher levels, or through national initiatives. This is evidenced in Table 1 by typically higher levels of wage co-ordination than suggested by the dominant level of wage bargaining.

Table 1 shows the persistence of some of the economic and institutional characteristics highlighted by VoC analysis in countries typically classified as LMEs or CMEs: CMEs still have more generous labour-market policies (as proxied by the cost of firing in terms of weeks of wages), greater trade union coverage, higher levels of wage co-ordination and wage bargaining, lower inequality, a higher share of government in the economy (as proxied by tax as per cent of GDP), lower levels of stock market capitalisation, higher levels of product-market regulation and a generally more complex regulatory environment in which government and business organisations play a greater role than is the case in the LMEs. Like the LME’s, South Africa has relatively high levels of market capitalisation and inequality. But as discussed below, it also shares some characteristics with
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<tr>
<th>Country</th>
<th>Real GDP per capita, PPP 2009 in US$</th>
<th>Product market capitalisation % GDP 2010</th>
<th>Tariff rate, weighted mean</th>
<th>Cost of business start-up procedures (% of GNI per capita)</th>
<th>Market capitalisation % GDP 2008</th>
<th>Tax % GDP 2009</th>
<th>Unemployment % employed</th>
<th>Gini 2000</th>
<th>Firing cost (weeks wages) 2009</th>
<th>Trade union density %</th>
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Notes: a member of the Eurozone; b2005 estimate; cRI = routine involvement of unions and employers in government decisions on social and economic policy (1 = irregular, 2 = often); W-coord: 1 = fragmented, mostly firm; 2 = mixed firm + industry weak enforceability; 3 = industry; 4 = industry with central guideline and pattern bargaining; 5 = national bargain or govt imposition; level = level of collective bargaining (4 is central + industrial, 3 = industrial, 2 = industrial + firm, 1 = firm; trade union density = % salary and wage workers that are unionised; coverage = % workers covered by collective agreements in sectors where there is the right to bargain.)
CMEs (labour regulation) and is more like a MME with its attendant problems of policy incoherence.

The South African case

South Africa clearly approximates neither an ideal type CME nor LME. Schneider (2009) suggests that South Africa is more like a Latin American ‘hierarchical market economy’ characterised by vertically integrated dominant firms, multinational enterprises and weak trade unions. But while this may have been so under apartheid, the post-apartheid political-economy is characterised by politically and institutionally powerful trade unions and much lower levels of vertical integration. In 1994, the gold-mining giant Anglo American controlled 43 per cent of the entire Johannesburg Securities Exchange (JSE) capitalisation – and the top five groups controlled 84 per cent through complex cross-holdings and preferential shares. This Apartheid-era concentration had been driven by exchange controls which prevented firms from divesting abroad so, when exchange controls were liberalised in the mid-1990s, it had a dramatic impact on economic concentration. By 1998 Anglo’s share had plummeted to 17 per cent as it ‘unbundled’ (selling off part of the business to a BEE consortium), listed on the London Stock Exchange and moved its head office to London.

One of the consequences of such unbundling and deregulation has been increased investment volatility. As can be seen in Figure 1, portfolio investment has come to play the dominant role in financing South Africa’s current account deficit – and these flows are easily reversed. The only significant inflow of foreign direct investment in the post-apartheid period was in 2001 when De

![Figure 1. Increasingly volatile investment flows](Source: Data from the South African Reserve Bank (www.resbank.co.za).)
Beers mining company was sold to a foreign financial holding company causing both a spike in foreign direct investment and an outflow of portfolio investment capital. Increased reliance on volatile portfolio capital flows, privatisation of state assets and the abolition of apartheid-era agricultural marketing boards has fundamentally transformed the South African business environment in the direction of a LME. But economic collusion remains a problem (Competition Commission 2008) and South Africa’s labour-market regime looks more like a CME.

South Africa is an interesting case for scholars of VoC because there was significant impetus from above (institutional formation at national level) and below (regional accord processes) to create a more co-ordinated and social democratic post-apartheid political-economy. As argued below, this CME-like vision was subsequently undermined by government when it unilaterally adopted orthodox macroeconomic policies and divided the business sector through BEE and other preferential procurement policies. It was also undermined at the ideological level by an alternative vision put forward by organised labour in favour of a developmental state and which down-played class compromise.

South Africa today contains elements of LMEs and CMEs. Macroeconomic, trade and investment policy is economically liberal, but while it is relatively easy to retrench workers for economic reasons, labour legislation is protective in other respects, raising costs to employers (Barker 1999: 19; Bhorat and van der Westhuizen 2009). South Africa’s welfare system is also more akin to the CMEs: In 1994 the post-apartheid government inherited a system of social grants which reached 2.9 million recipients (seven per cent of the population) at a cost of 2.1 per cent of GDP; as of 2010, it now reaches 14 million people (28 per cent of the population) at a cost of 3.3 per cent of GDP. But unlike the ideal-type CME, no significant or sustained support is provided for the unemployed.

Compared to the other middle-income and developing countries in Table 1, South Africa has a relatively high coverage of collective bargaining and routine involvement of trade unions and business in government policy. It also has by far the highest unemployment rate. Between a quarter and a third (depending on the measure) of the labour force is unemployed and less than half of working age adults have jobs (Nattrass 2011). This is partly because the state has strong regulatory capacity – particularly with regard to tax and labour legislation – and there is thus no significant informal sector to provide jobs for those who cannot find work in the formal sector. This is the crucial difference between South Africa and other middle income countries – especially in Latin America – where informal employment provides a safety net of sorts.

Unemployment is the central economic dilemma facing the country – and one which poses different challenges for economic policy and wage-setting institutions than is evident in the Euro-centric CME/LME paths to growth. In the European CMEs, labour-market protection is associated with lower inequality because the wage distribution is compressed and because the unemployed get generous welfare assistance. In South Africa, however, where so many working age adults are without work or government grants, inequality is driven primarily by the gap between those with some work, and those with none (Seekings and Nattrass 2005). Creating jobs, even at low wages, thus would have a positive
impact in terms of poverty alleviation and narrowing inequality. However, for the trade union movement, the priority is protecting and raising real wages, boosting productivity and advocating for ‘decent work’ for the employed.

Figure 2 shows that employment growth was positive in the mid-2000s but that it has been typically lower than that of real output, resulting in a trend increase in aggregate labour productivity. Rising labour productivity is a positive sign in so far as it indicates the economy is becoming more efficient. But the serious downside of rising labour-productivity for a labour-surplus economy like South Africa is that ever fewer jobs are being created for each additional unit of output.

South Africa’s employment problem has strong historical roots. Mining and agriculture were the major employers of unskilled labour under apartheid, but their relative and absolute contribution to employment has fallen over the past four decades. As the manufacturing and services sectors expanded, the apartheid institutional infrastructure was revealed to be a major fetter on development. Business responded to shortages of skilled labour and to the incentives provided by government (for example, tax-breaks for capital-investment and negative real interest rates) by becoming more capital-intensive. The tragedy of this growth path is that just as the economy switched from labour shortage to labour surplus in the 1970s, economic growth became steadily less labour-demanding. High and rising unemployment was the inevitable result (Seekings and Nattrass 2005).

The democratic transition: the rise and fall of a CME vision in South Africa

When South Africa made the transition to democracy, it did so under the long shadow of apartheid. Racial discriminatory policies had left the economy with persistent skills shortages and a business community divided on sectoral, cultural and racial lines (Nattrass 1997b). Some labour-market reforms had been undertaken in the 1970s, notably the ending of job reservation for whites only, and from 1979 the
system of collective bargaining was deracialised. This effectively legalised black trade unions, allowing black workers to participate in industry-level bargaining – and this system persists, fundamentally unchanged, today.

Representative employer organisations and trade unions set wages in bargaining councils and these are typically extended to non-parties on request by the Minister of Labour. Where no bargaining council exists, the government’s Employment Conditions Commission sets minimum wages. This amounts to a relatively strong level of wage co-ordination. As can be seen in Table 1, South Africa is classified as a level 3 on a scale ranging from national agreement (5) to firm-level agreements only (1).

As political opposition to, and protests against, apartheid mounted during the 1980s, key figures within South Africa’s business elite held secret meetings with the African National Congress (ANC) in exile, and started engaging with opposition leaders inside the country (Handley 2008: 53–4; Van Wyk 2009: 9–10). These consultations continued after 1990 when the ANC was allowed to operate legally in the country and South Africa began the transition to democracy. Nelson Mandela, who became South Africa’s first President, received regular briefings from the business leaders and often dined with Anglo American patriarch Harry Oppenheimer (Waldmeier 1997: 256–7).

When Mandela was released from prison in 1990, his first speech called for nationalisation of the mines and monopoly industry. This was a long-standing demand of the anti-apartheid movement – as embodied in the 1955 Freedom Charter. However, ANC economic policy changed sharply during the early 1990s. In 1991, Mandela attended the Davos conference where he met with Li Peng, the new premier of China, who said to him: ‘I don’t understand why you are talking about nationalisation. You’re not even a communist party. I am the leader of the communist party in China and I’m talking privatisation’. Mandela subsequently repeated this conversation at every ANC discussion on the economy and sought to assure investors that their investments would not be endangered by nationalisation (Green 2008: 345–6). Davos proved to be a pivotal moment, laden with different meanings and interpretation. According to Pallo Jordan, an ANC cabinet minister from 1994 to 1999, ‘those who wield power in the West told Nelson Mandela in no uncertain terms that any actions that threatened property rights would invite their wrath’ and that ‘a chastened Mandela returned to South Africa from Davos ready to drop the nationalisation of the mines’ (Jordan 2012). Tito Mboweni, Mandela’s Minister of Labour and subsequently Reserve Bank Governor, disagrees. Noting that he had been at Davos with Mandela and had helped him rewrite the plenary address that has been drafted ‘by well-meaning folks at the ANC office in Joberg’, Mboweni argues that Mandela’s decision to drop nationalisation had been sparked by his discussions with communist party leaders in China and Vietnam and that ‘It was not Western capitalists. Not at all. I bore witness to that’ (Mboweni 2012).

As ANC policy documents became increasingly market-friendly and liberal (Nattrass 1994), left critics started accusing it of forging an elite pact that would leave existing power structures intact (see McKinley 1997; Bond 2000). But as Cyril Ramaphosa, a leading ANC architect of the transition to democracy, noted of the time, an ideological groundswell was evident and that ‘many people
were beginning to feel more and more comfortable with a mixed type of economy’ (quoted in Green 2008: 339). Even the South African Communist Party (a long standing ally of the ANC) engaged in some soul-searching as its Secretary General penned an influential piece titled ‘Has Socialism Failed?’ (Slovo 1990) criticising Stalinism and asserting the importance of democratic freedoms. The stage thus seemed set for the adoption of a more social democratic or co-ordinated variety of capitalism in South Africa.

Further impetus was provided by spontaneous regional accord processes. In the Eastern Cape Province, business organisations, labour and government came together to form the Eastern-Cape Socio-Economic Consultative Council. This helped foster more co-operative relations between business and the state (in one initiative private sector advisors were seconded to local government to help with public infrastructure revitalisation), but was less successful with regard to capital-labour relations. Whereas business wanted organised labour to ‘put the region first’, that is, to negotiate regionally-specific wages and not to participate in national strikes, this was resisted by organised labour (Nattrass 1997a). In other respects, however, organised labour started cutting productivity-related pay deals with employers in order to save jobs (Nattrass 1995). In 1991, mining employers and the National Union of Mineworkers (NUM) entered into agreements where workers accepted wage restraint and various forms of profit sharing. The NUM acting general secretary noted: ‘The choice we had to make was whether to drive a higher wage increase with less employment in the industry as a real prospect – or whether we try to achieve maximum employment, and at the same time augment wages and win social rights’. Although these innovative wage-setting agreements fell apart three years later (because there were concerns about the potentially divisive effect of having the more profitable mines pay workers relatively higher wages), they demonstrated that even South Africa’s militant trade unions were capable of concluding agreements that recognised the trade-offs between wages, employment and profitability. The possibility that South Africa could move towards CME-type coordinated wage setting seemed very real during the early 1990s and substantial energy was put into developing regional and national-level social democratic institutions.

In 1990 organised business and labour agreed, in principle, to create a national forum to discuss the impact of labour relations on the economy. This resulted in the National Economic Forum being set up in 1992 – a body that was subsequently transformed into the National Economic Development and Labour Council (Nedlac) by one of the first pieces of legislation passed by the new democratic government in 1994. According to the leading business representative, Nedlac was intended to ‘inaugurate a new era of inclusive consensus-seeking and ultimately decision-making in the economic and social arenas’ (Parsons 2007: 9). Unfortunately, this hoped-for vision failed to materialise.

The first problem was that attempts to create the kind of peak-level business organisation necessary for national co-ordination were plagued by racial divisions. An organisation called Business South Africa (BSA) was formed to represent South Africa at the International Organisation of Employers conference in 1994, and it subsequently went on to represent business in Nedlac. But this
unity was fragile and tensions soon arose and the organisation fragmented between
the predominantly black and white business organisations. It took eight years
before a new umbrella body – Business Unity South Africa (BUSA) – was
created but, even then, racial divisions continued to simmer. These were exacer-
bated by the government’s BEE policies (discussed below) which further under-
mined the incentives for black and white business to work together. Eventually,
in 2011, the major black organisations left BUSA to form the Black Business
Council.

The second problem was that the government referred some, but not all, of its
economic policies to Nedlac. Thus, while the post-apartheid Labour Relations Act
was negotiated in Nedlac prior to reaching parliament, this was not the case with
the infamous 1996 ‘Growth Employment and Redistribution (GEAR)’ macroeco-
nomic framework which sought to restrain government spending (to deal with a
debt crisis), boost private investment and liberalise aspects of the labour laws to
promote job creation (DOF 1996). Although GEAR also called for a social
accord, this aspect was drowned out in the public debate by condemnation –
especially from organised labour – of its supposedly ‘neoliberal’ macroeconomic
and labour policy proposals (Nattrass 1996).

The discursive problem for the ANC was that when it fought its first election, it
had in its ‘Reconstruction and Development Program’ (RDP) promised to boost
employment creation through demand-driven growth and state-facilitated infra-
structural and housing programs (ANC 1994). This vision had been supported
by a group of ANC-aligned economists calling for expansionary fiscal and macro-
economic policies (MERG 1993). However, this option was rendered unworkable
by the sharp increase in the government deficit (from 1.5 per cent of GDP in 1990
to 7.3 per cent in 1993) that took place during the transitional period. By 1996,
when the ANC first obtained full control of government, controlling the debt
burden and stabilising the economy had become a priority – and even more so
in 1998 after the Asian currency crisis. The Ministry of Finance (now known as
the National Treasury) responded with GEAR – a document intended to boost
private investment by emphasising ‘fiscal discipline’ and to pave the way for
greater ‘regulated flexibility’ in the labour market (Nattrass 1996). Left trade
unionists, however, saw it as the beginning of the ‘1996 Class Project’ that is,
the ‘co-optation by White monopoly capital to weaken the National Democratic
Revolution and reverse the gains of the 1994 democratic breakthrough’.5

The public debate and protests over GEAR involved both communicative dis-
ourse (with the public) and coordinative discourse between the ANC and its alli-
ance partner – the Congress of South African Trade Unions (Cosatu). In both
cases, the National Treasury lost the rhetorical battle. Cosatu attacked government
for imposing these policies unilaterally, for reneging on its electoral promises, by
proposing changes to the labour legislation (by appearing to be supporting a ‘two-
tier’ labour-market) and selling out to business. The ANC responded by maintain-
ing its stance on fiscal discipline and continuing with trade liberalisation – but it
backed away from any changes to labour-market policy and effectively ceded the
Ministry of Labour to Cosatu.

While this served the ANC’s immediate political needs by offering an olive
branch to its alliance partner, the result was an entrenched oppositional
relationship between macroeconomic and labour-market policy-making at the heart of the state. Whereas the National Treasury was and continues to be staffed by mainstream economists, the Director General of Labour and the Deputy Director General in charge of labour policy and industrial relations are both long-standing trade unionists, and the current and previous Ministers of Labour were ex chairperson of the Cosatu Women’s Forum and head of the teacher’s union, respectively.

The result of this institutionalised ideological mismatch between two crucial organs of economic policy-making has been an uncoordinated set of economic and labour-market policies inimical to employment growth. Whilst labour-market policies sought to raise and extend the coverage of minimum wages whilst increasing non-wage costs of employment for business, tariffs on imported manufactured goods were reduced sharply, from 23 per cent in 1994 to 8.6 per cent in 2004 (Edwards 2005). As was the case in other countries attempting trade liberalisation under rigid labour-market conditions and fiscal austerity (OECD 1999: 156–9), the results were costly in terms of employment, especially of unskilled labour. Figure 3 shows that employment fell as real average remuneration rose during the 1990s (and that this trend is evident in more recent years too). Note that labour productivity rose faster on average than real wages, thereby enabling the gross profit share and rate to rise. The winners were thus the employers who remained in business, and those workers who kept their jobs. Some of these workers, notably the most skilled, enjoyed substantial wage increases but, for the most part, average real wages rose because relatively unskilled low-wage jobs were shed (see also Seekings and Nattrass 2005).

Many factors contributed to the shedding of unskilled labour. These included the impact of labour legislation, which raised the cost of employing labour, and the operation of the wage-bargaining system, which set wage floors by industry (binding predominantly on unskilled labour) – all of which provided strong incentives for firms to substitute machinery for workers, and to have a smaller,

Figure 3. Trends in profitability

Source: Data from the South African Reserve Bank (www.resbank.co.za).
better-skilled, better-paid and more manageable workforce (see Moll 1996; Nattrass 2000). Even policies designed to improve the machinery of labour-dispute resolution, notably the introduction of the Commission for Conciliation, Mediation and Arbitration, had the unintended effect of burdening employers further by operating in an unnecessarily legalistic way, thereby increasing the risks to employers of hiring labour (Bhorat and Van der Westhuizen 2009). This, in conjunction with the trade liberalisation, put substantial pressure on firms, especially those in the more labour-intensive tradeable sectors such as clothing (Anstey 2004: 1842).

Other policies, notably industrial policy with its focus on recapitalisation, contributed further to rising capital intensity (Kaplan 2003, 2007). Although the post-apartheid economic planners had hoped that recapitalisation would provide a strong basis for growth, thereby expanding employment opportunities in the future, industrial policy proved disappointing. As Kaplan (2007: 98–9) points out, industrial policy was never consolidated under one arm of the state, but remained scattered and even ‘hidden’ – such as support for arms production. Industrial policy was also bedevilled by having to address too many strategic concerns, including regional development, small-business development, racial transformation in hiring, skills development, moving up the value chain, promoting labour-demanding growth and BEE. The result was that industrial policy as a whole became less well targeted and effective. Attempts to create structured forms of engagement with business (including national investment summits and regional forums as part of the spatial development initiative) failed to build the necessary trust and information flows required for effective industrial policy.

The key institutional casualty was Nedlac. According to a representative from the Presidency (during Mbeki’s term of office), Nedlac failed because Cosatu was fearful that business was bypassing Nedlac and influencing the state directly – as it was believed to have done with regard to GEAR. Others argue that government was primary to blame and that its failure to discuss GEAR in Nedlac was symptomatic of a broader desire to maintain control over policy. But according to Jayendra Naidoo, Nedlac’s first executive director, the key issue was that organised labour was never comfortable with the tripartite aspect of Nedlac, preferring instead to have bilateral engagement with business over wages/working conditions and with the ANC over policy. This, in turn, was facilitated by an alternative policy discourse emanating from the trade union movement in favour of a strong developmental state designed to assist and discipline capital whilst promoting productivity growth and ‘decent’ work.

The contrasting growth vision from organised labour

During the early 1990s, intellectuals aligned with the trade union movement grappled with how to engage with capitalism. Constrained by the collapse of socialism in Europe to accept market-oriented policies, they nevertheless saw themselves as radical socialists engaging with both state and business on a strategic level to establish a basis for socialism in the future (Gall 1997). Arguments by visiting social democrats and Australian trade unionists for class compromise and linking wage increases to productivity growth failed to resonate within Cosatu.
According to Harcourt and Wood, this reflected deep historical antagonisms: ‘Years of intense conflict, precipitated, at least in part, by a system of “Racial Fordism” at the workplace, have radicalized workers, so that calls for wage moderation and cooperation with management would probably be perceived as signs of co-optation’ (2003: 95–6). Thus even those unionists who accepted the need for class compromise may have felt themselves discursively trapped by this history.

Instead, the trade union position eventually coalesced into support for a capitalist system shaped and managed by a ‘developmental’ state – which would support a high-wage, high-productivity growth path through complementary labour-market and industrial policies (see Vavi 2008a, 2008b). This ‘high productivity now’ strategy assumes that even in a labour surplus country like South Africa it is necessary to increase labour productivity today in order to project the economy onto a more ‘dynamic’ growth path tomorrow (Nattrass 2001). It adopts aspects of the East Asian development experience – notably a role for active industrial policy (Wade 1990) – whilst disregarding the central characteristic of the East Asian growth experience: that surplus labour was drawn initially into low-wage labour-intensive sectors, and that the economies were only projected onto a more capital- and skill-intensive labour demand growth path once that surplus labour had been absorbed and average skill levels improved (Birdsall and Jasperson 1997). Instead, it asserts the need for ‘living wages’ and ‘decent work’, thereby employing a rhetorical strategy inimical to low-wage, low-productivity employment strategies. Precisely because it prioritises ‘decent’ high-wage jobs for the employed, it is, ironically, a reincarnation of the old trickle-down story: increases in productivity supposedly drive the rising tide of economic growth; the unemployed must get trained and wait for the employment waters to rise.

This approach has strong echoes of Porter (1990) in that it assumes national competitive advantage rests primarily (if not solely) on the adoption of ‘best practice technology’ and on active state involvement in support of innovation and otherwise generally encouraging structural change in favour of higher value-added activities. In the hands of trade union intellectuals, this approach was adapted to include the use of wage pressure to ‘force’ South African capitalism onto the cutting edge and up the value chain (Nattrass 2001).

An early influential statement of this vision was articulated by the Industrial Strategy Project (Joffe et al. 1995), a trade union-linked think-tank which favoured using wage growth and employment protection to ‘encourage restructuring up the value chain rather than restructuring towards low-wage, low-productivity forms of production’ (Joffe et al. 1995: 213). They situated the South African labour movement’s approach to industrial restructuring within this particular logic, pointing out that it was ‘premised on the need to move South African firms out of their low-wage, low-skill, low-productivity vicious circle in which they are out-competed by the second-tier newly industrialising countries (Joffe et al. 1995: 214). In other words, not only does it take as a given that South Africa’s wage structure is too high to compete with the newly industrialising countries and that the appropriate response is for the state to assist firms to become more productive (which typically implies more capital-intensive
production) in order to compete on a higher wage, high productivity trajectory, but it also assumes that destroying existing (competitive) low-wage production is part of the strategy. This resonates with popular notions that if low-wage production is allowed to exist, there will be a ‘race to the bottom’. Such ideas serve to denigrate low-wage labour-intensive jobs and deflect attention away from the fact high and low productivity operations can co-exist where they compete in different product markets.

In 2009, in the cabinet reshuffle following Thabo Mbeki’s replacement as president by Jacob Zuma, Ebrahim Patel was appointed to the newly created ministry of Economic Development tasked with co-ordinating and planning the government’s economic policies. Patel, who had been General Secretary of the South African Clothing and Textile Workers Union from 1999–2009 and national labour convenor for Nedlac, is deeply committed to using government resources and policies to promote high-wage, high value-added forms of production. The first policy document produced by the Ministry of Economic Development, the ‘New Growth Path’ plan is centred on this vision (Nattrass 2011) – as is industrial policy with its Porter-like emphasis on ‘world class manufacturing’, upgrading and the like (see DTI 2011).

Cosatu’s vision thus appears to be at the centre of the government’s growth strategy, but there are signs that it is not necessarily a hegemonic position. For example, the Minister of Finance, Pravin Gordhan (2011) recently suggested that changes to South Africa’s labour dispensation may be necessary to prevent further job losses in the clothing sector – a view subsequently endorsed by Trevor Manuel, a previous minister of Finance. There appears to be major differences of opinion within government about economic policy, but under Jacob Zuma’s political leadership there have never been any effective attempts to resolve them. Certainly since Rob Davies (a member of the SACP) became minister of Trade and Industry, there has been better co-ordination between trade and labour policy in the sense that there have been no further unilateral decreases in tariffs, and government assistance to industry has been conditional on firms complying with labour legislation. But tensions remain between DTI and Labour on the one hand, and the Ministry of Finance and the Reserve Bank on the other (both of which are regarded by the left as pursuing unnecessarily restrictive fiscal and monetary policies).

**Race, business and the state**

The potential for economic co-ordination has been undermined further by racially and increasingly clientalistic relations between business and the state. The cordial relationship between the ANC and the white business elite that had been evident during the transition to democracy unravelled in early 1997 when the head of Standard Bank offered to assist government with its ‘capacity’ problems by suggesting that senior executives be seconded to government as ‘part of their commitment to transformation’ (Gevisser 2007: 686–7). Thabo Mbeki, then Deputy President and increasingly responsible for economic affairs, was apparently offended by the suggestion that the new government needed assistance from white business. It was only once the white corporate sector created the
'Business Trust’ in 1998 to raise money for job creation and education, that he re-opened lines of communication by creating a working group through which he would meet with big business leaders (Handley 2008: 90–1).

The situation for black business, however, was very different. The ANC government, especially after Mbeki became president in 1999, championed BEE to encourage rapid redistribution of share ownership from white to black hands. This had a significant impact. Just as the old white corporate sector had maintained power and control over vast swathes of the apartheid economy through interlocking directorships and shareholdings, a now tightly connected new black elite serves on each other’s boards and is closely connected to the national government (Calland 2006: 265; Van Wyk 2009; Seekings and Nattrass 2011). This is justified by an unabashed ideology that frames the promotion of a black business elite as both just and good for South Africa (Seekings and Nattrass 2011). SACP critics, however, regard this as a justification for cronyism and as a betrayal of the revolution (SACP 2006; Turok 2008). Ironically, though, beneficiaries of BEE include the politically connected black elite and trade unions who, by virtue of their largely black membership, are able to invest pension funds and debt in BEE deals. Notable amongst these has been the Mineworkers Investment Company (owned by the NUM), Kapanao ke Matla (owned by Cosatu), Sactwu Investment Group (owned by Sactwu) and the Union Alliance Holdings (owned jointly by Cosatu and other trade union groupings).

The first major BEE legislation was the 2000 Preferential Procurement Framework Act, which required that government favours tenders from black-owned companies. Further BEE legislation was promulgated in 2003 to promote sector-specific ‘charters’ specifying targets in terms of BEE deals (Hirsch 2005; Gqubule 2006; Turok 2008: 155–7). This was backed up by legislation, for example the Minerals and Petroleum Development Resources Act of 2004 which required mining houses to become BEE compliant if they wanted to renew their mining licences. The basic model for a BEE deal is that black investors buy a discounted stake in a company (sometimes through holding companies or Trusts) financed through a combination of bank loans (sometimes underwritten by the company involved), expected dividend flows and increases in share price. In return, the company is able to gain informal access to the black political elite, lucrative government contracts, mining licences and the like.

In February 2007, the government gazetted new ‘Codes of Good Practice’ for so-called ‘broad-based’ BEE in an attempt to spread the benefits more widely. It widened the range of business practices, such as affirmative action, employee share ownership for which firms could earn BEE ‘points’. As the BEE status of supplier firms affects the BEE status of contracting firms, BEE compliance is now being strongly transmitted through value-chains. In the process, the business environment has become fundamentally re-racialised, although this time to the advantage of (especially politically-connected) black rather than white people.

Increasingly, the interconnections between the ruling elite and BEE beneficiaries has raised the spectre of corruption and nepotism – with the attendant worry that South Africa may be moving towards a more patrimonial variety of capitalism. In the mid-1990s, the Treasurer of the ANC, Thomas Nkobi, favoured the creation of party-aligned business structure. Although this was never endorsed
as official policy, Jacob Zuma’s advisor, Shabir Shaik, went on to create Nkobi Holdings (of which the ANC had a 10 per cent stake), a conduit later shown to have received payments from companies in return for lucrative contracts mostly in the arms industry, but also government contracts such as the supply of South African driver’s licences (KPMG 2012: 27). Other similar shady investment vehicles were created and South African newspapers regularly carry stories and exposés of corruption, where tender processes are abused and contracts awarded to individuals close to the state. As Robinson and Brummer concluded in 2006, ‘the murky relationship between money and politics has been at the heart of almost every major scandal faced by political parties and the government since 1994’ (2006: 2). Most infamously, there has been a steady drip of revelations in the media about the corrupt arms deal, in which inter alia millions of Rands were channelled through Nkobi Holdings to Jacob Zuma. Schabir Shaik was found guilty in 2005 on two counts of fraud and corruption for his profiteering in the arms deal through Nkobi Holdings. Jacob Zuma (now president) was depicted by the judge as having a ‘generally corrupt’ relationship with Shaik. Subsequent attempts to prosecute Zuma failed as the prosecuting authority folded in the face of political pressure and influence.

The arms deal is one of the most contentious issues of post-apartheid South Africa. It has resulted in civil society mobilisation in favour of full disclosure, in resignations from parliament by disgusted ANC members of parliament and various public interest lawsuits. Part of the justification for the arms deal was that the firms awarded the armaments contracts would deliver ‘offset’ investments – that is, would promise to invest in other parts of the economy, thereby creating jobs. Alec Erwin, the erstwhile Minister for Trade and Industry, was one of the most fervent supporters of the arms deal, supposedly because the offset deals could boost South Africa’s industrial policy (Feinstein 2007: 232; Green 2008: 474–5). However, less than a quarter of the paltry 12,000 offset-related jobs were actually delivered (Feinstein 2007: 232).

The growing number of examples of graft, corruption and the abuse of state power in the allocation of contracts has harmed South Africa’s reputation in the business and international communities. So too has the erosion of trust in South Africa’s police services. Jackie Selebi, the national police commissioner from 2000 until 2008, was convicted of corruption and sentenced to 15 years in jail (though he was released on supposedly medical grounds after serving less than a year) and South Africa’s criminal investigation and prosecutions authorities have been plagued for more than a decade by political intrigue. Figure 4 plots the Heritage Foundation’s changing index of perceived corruption and other aspects of ‘business freedom’.12 Perceived freedom from corruption improved in the late 1990s, but has been on a sharp trend decline since 1998. Thus while fiscal and trade ‘freedom’ (basically a measure of trade liberalisation and orthodox fiscal policy – both of which shape the macro environment) trend upwards, the micro business environment (corruption, controls on investment, BEE, labour laws barriers to entrepreneurship) have trended the other way. The World Bank governance indicators are even more negative about post-apartheid South Africa’s ability to control corruption. As shown in Figure 5, perceived regulatory
quality and especially control of corruption have been trending sharply downwards in the 2000s.

The rational strategy for white business, in this environment, is to act defensively and for individual capitalists to look after their own narrow interests, perhaps through continued unbundling and disinvestment, and otherwise by engaging in BEE deals and the like in order to obtain government patronage through the back door. The rational strategy for black business is to accumulate capital
on a parasitic basis (by obtaining shares in return for political favours and connections) rather than participating in the productive sector of the economy where conflict with labour is inevitable. Those that do venture into the productive sector are likely to lobby the government for additional support, such as tariff protection and even bail-outs.

In short, there are strong indications that a form of crony capitalism is developing with a peculiarly South African twist in which organised labour lobbies government on behalf of employed workers and its investment interests. However, unlike in Zambia and Ghana where this is a serious problem (Handley 2008), the South African economy is large enough for there to be many other routes for aspirant capitalists to make money – even though BEE regulations may act as a tax on that effort. Furthermore, there exists a dynamic civil society which has resisted the government, notably on AIDS, poor education delivery, and corruption in the arms deal. Neo-patrimonialism thus may grow, but as long as civil society remains strong, and the economy reasonably diverse, it is unlikely to become the key defining feature of post-apartheid capitalism.

The rational strategy for organised labour is to continue lobbying the government for pro-labour policies and to involve itself in BEE deals. What this means for the prospects of a more co-ordinated variety of capitalism emerging in South Africa is an open question. Iheduru (2002) points out that organised labour’s involvement in business deals (so-called ‘comrade capitalism’ or ‘business unionism’) blurs the lines between workers and owners thereby giving workers a ‘material stake’ in the economy, and helping build a black business class. He argues that this will make cross-class compromises more likely and be good for ‘social concertation’. But as long as unions continue to reject wage restraint and insist that it is the job of government to mobilise development-state type policies to boost productivity and move firms up the value chain, then class compromise is unlikely. Indeed, one would expect unions to demand industrial policy support when companies run into trouble. For example, in 2011–12, R66.7 million was provided by the Department of Trade and Industry to Seardell, a clothing and textile producer part-owned by Sactwu, for modernisation, upgrading and the financing of additional capacity. Ironically, though, this large injection failed to stem the tide of job losses as Sactwu continued to push for higher wages.

Conclusion

Post-apartheid South Africa thus appears to have CME-like labour regulations entrenched alongside growing neo-patrimonialism. But it also, somewhat paradoxically, operates in a more liberal economic environment – at least on some dimensions. For example, Figure 4 shows that South Africa’s ‘fiscal’ and ‘trade’ freedom increased between the 1990s and 2000s – largely because of trade liberalisation and the countries fairly orthodox fiscal and monetary policies. The problem for businesses – especially those in the internationally competitive labour-intensive product markets – is that the combination of high and rising labour costs and trade liberalisation places a serious squeeze on profitability (Nattrass and Seekings 2012). The situation, as depicted in Figure 2, may
benefit firms operating in higher wage, higher productivity niches, but it comes at
the cost of growing capital-intensity and persistently high unemployment. Racial
inequality has declined sharply in the post-apartheid era, but unemployment
coupled with no support for the unemployed has resulted in the persistence of
both poverty and inequality, albeit in new, class-based forms (Seekings and Nat-
trass 2005). It is a variety of capitalism which provides CME-like support for the
employed, patrimonial and increasingly corrupt support for sections of black
business, whilst effectively excluding the predominantly unskilled, unemployed
from the fruits of growth.

South Africa’s failure to create sufficient jobs to address the unemployment
crisis is posing serious challenges for economic policy and social policy.
Recent attempts to boost youth employment through a wage subsidy scheme
met with strong resistance from organised labour which has remained implacably
opposed to the idea that jobs should be created through lowering the cost of
employment. Despite growing concern about job losses (notably in clothing) bar-
gaining councils continue to use the legal system and local sheriffs to shut down
tirms which fail to pay the negotiated minimum wage. Calls by the Minister of
Finance and the head of South Africa’s Planning Commission for a more employ-
ment-friendly labour relations system reflect a growing disquiet in government
circles about the role of institutions in exacerbating unemployment.

One option is to move more in the direction of a CME and introduce social
welfare for the unemployed – which will lower inequality but increase the
tax burden. But this is resisted by business and organised labour because
South Africa’s relatively narrow tax base means that all income earners will
have to pay higher taxes. Another option is to move more in the direction of
a LME with regard to labour laws whilst retaining statist components (for
example, industrial policy) where they are effective. This, however, is strongly
resisted by organised labour. The framing of those who propose labour-market
reforms as ‘neo-liberal’ and as ‘sell-outs’ makes it very difficult to have a pro-
ductive discourse about how best to build an inclusive political-economy in
South Africa.

Finally, South Africa’s adversarial labour relations pose major challenges for
any co-ordinated solutions involving class compromise. Most worryingly,
vigorous strikes disrupted the mining industry in 2012 – most notoriously in
August when over 47 miners were killed by the police. The once powerful
NUM, which had brokered profit-sharing deals in the gold mining industry in
the early 1990s, appears to have lost ground to a rival union, with a particularly
adversarial approach to wage setting. This has all but stalled investment in South
African mining. The Western Cape wine industry has also suffered from sponta-
neous and organised protests and demands that the minimum wage in agri-
culture be doubled. In neither the mining nor the agricultural wage disputes have
any efforts been made to link wage demands to profit sharing arrangements or
job retention. Although there are some employee share ownership schemes in
mining and agriculture, these are rare. Overall, there appears to be no immediate
prospect for a more co-ordinated, social-democratic variety of capitalism in South
Africa.
Notes

1. The increase is attributable to the introduction of a child support grant and extensions in eligibility criteria for the old age pension. See South African Reserve Bank Quarterly Bulletin, September 2011: 52–3.
11. Information on legislation, charters, BEE scorecards etc can be found on the Department of Trade and Industry website: http://www.thedti.gov.za/bee/beecodes.htm
12. See http://www.heritage.org/index/book/chapter-1

Notes on contributor

Nicoli Nattrass is Professor of Economics and Director of the AIDS and Society Research Unit in the Centre for Social Science Research at the University of Cape Town.

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