

DEMOCRATISING ECONOMIC GROWTH: ALTERNATIVE GROWTH MODELS FOR THE FUTURE

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The debate about future economic strategies and development paths for South Africa is being conducted at present in terms of two separate concerns - redistribution and growth. The former is a response to the need to redress the extreme inequalities in distribution of income and wealth, and the related disparities in living standards, for which South Africa is notorious, and which have historically been expressed essentially in racial terms. The latter is a response to the severe decline in South Africa's economic growth performance over recent years, which has evidently coincided with, and been linked to, the change in the political balance which has now finally brought us to the edge of negotiations.

I take as implicit both the need for significant reorganisation of our economy and society to redress racial inequalities in distribution of economic power and resources, as well as the explanation (at least in broad terms) for the existing situation, as put forward during the 1970s by the 'radical' view of South African development. This paper begins instead with an examination of the nature of South Africa's economic decline and of the obstacles which exist to restoring sustained growth in the future. It then continues with an examination of the business/government attempt to counter this decline. The fourth section spells out in broad terms an alternative approach to restoring economic growth, one which is being debated and developed by economists and others linked with the ANC and its allies.

South Africa's Economic Crisis

The essence of the argument (developed at greater length elsewhere) is that, considered in the context of a long-run perspective on capitalist growth and development, the South African economy has been in an *economic crisis* since 1974. The popular connotation associated with 'crisis' is an idea of collapse or breakdown. But the original, more useful, meaning of the term is 'turning point'. In this sense a crisis in a capitalist economy implies that the system cannot continue to develop along the same path as before - it must

'adapt or die', as PW Botha eloquently expressed it more than a decade ago.

South African capitalism reached a turning point in the mid-1970s, reflected in both the decline of the long-run growth rate of the GNP, as well as the more unstable and volatile shorter-run cyclical fluctuations since that time, as compared with the period following World War II. These changes in the pattern of GNP growth have been linked to the failure of the 'growth model' - the combination of patterns of production, distribution and consumption, in other words, the *form* of capitalist growth - which had characterised the postwar period of relatively sustained economic expansion.

The years since have seen the decay of this 'old order' and the emergence thus far of only some elements of a possible successor. The turning point has not yet been fully traversed - the crisis continues.

The growth model which emerged in South Africa in the postwar period focussed on extending industrialisation via the production of (previously imported) sophisticated consumer goods for use primarily within South Africa. A possible alternative orientation would have been to expand production of basic consumer items for both (larger) domestic and foreign markets. This was the path followed by south-east Asian industrialisers like South Korea. Two primary factors pushed South Africa, perhaps inevitably, towards the former path:

- racial domination, creating political pressure to substantially raise white living standards, while similar black demands were repressed;
- mineral wealth, making it possible to pay for the necessary machinery imports.

The resulting 'growth model' has been called 'racial Fordism' to indicate that racial domination was the pre-eminent factor shaping economic institutions. It combined import substitution industrialisation (ISI) with the apartheid structuring of the labour and consumer goods markets. Whites were in a similar position to the working classes of the advanced industrial countries, with steadily rising living standards, while blacks (especially Africans) remained relatively impoverished, though their incomes did rise slowly. Thus inequality increased.

The essential foundation of 'racial Fordism' was the expansion of exports of gold and other precious metals, and their stable prices on world markets. Overall export earnings were relatively stable (as distinct to constant), so that there was only limited variation in the investment coefficient (the ratio between investment and GNP) over the course of the business cycle.

This model fitted well with growth patterns in the major industrialised economies, and like these countries, South Africa grew rapidly, with an average GDP growth rate of 4.9% per annum between 1945 and 1974. While

cyclical fluctuations occurred, there was a relative stability in the long-run in the relation between the changes in labour productivity and in capital intensity, so that the wage share was relatively constant. The interaction between these variables followed a similar pattern as found in the advanced economies, though productivity growth and wage share in South Africa were both at lower levels absolutely.

The model's 'success' in achieving growth brought its own problems, however. The emphasis on capital-intensive production methods meant, first, that employment rose, but slower than the overall labour force, so that unemployment also rose. Also, machinery and intermediate production inputs came to dominate imports, so that the ability to expand production was increasingly tied to balance of payments considerations.

By the start of the 1970s, there were already clear indications that these factors were becoming serious obstacles. Indeed, these rigidities helped to shape the manifestations and impact of the economic crisis as it has developed - their legacy constitutes two of the key problems we confront today.

But more immediate problems arose, linked to the wider crisis developing in the international economy as a whole. There were three immediate causes of the crisis. Firstly, rising costs of imports of both machinery and commodities (especially oil after 1973), which raised the cost of investment and productivity improvement in South Africa. Secondly, the collapse of the Bretton Woods system of fixed exchange rates led to fluctuating prices on world markets for South Africa's mineral exports, which now became a *destabilising* influence on the overall growth, as opposed to their stabilising effect in the earlier period.

Thirdly, and partially related to these international developments, real wage levels for African workers rose significantly from the mid-1970s, further boosting already rising production costs in both manufacturing and mining. The apartheid institutions in the labour market proved unable any longer to limit black wages, especially given the growth in the size of the working class during the 1960s. The mechanisms within the financial system which had helped to direct funds from mining to the other sectors were now helping to boost inflation.

The growth model's strengths now became weaknesses as these developments disrupted previously stable relations - on the one hand, the link between imports, export revenue and investment, and on the other, the interaction between wage increases and total wage share, productivity growth and consumption patterns. This destabilised overall growth, pushing up production costs, and producing greater cyclical instability.

The result has been stagnation, and declining investment and productivity growth. One metaphor for this is the transformation of the 'image' of the South African economy from a site of 'super exploitation' yielding 'super profits' to an economy increasingly abandoned as a locus of operations by multinational corporations, whether foreign or South African, because of high costs and poor profitability prospects.

The crisis has seen the decline and collapse of the old growth model. Much of the 'reform' process since the late 1970s can be read as efforts to adapt and shore up the racial Fordist growth model. Central to the ultimate lack of success in this regard have been the responses - economic and political - of groups and individuals to the effects of both crisis and reform.

In the process South Africa's social structure has been fundamentally transformed, with much greater class differentiation emerging within racial groups. Substantial middle classes and masses of unemployed have emerged amongst urban blacks, the former due to the relatively more rapid growth of the service, distributive and financial sectors, and the latter due to the slow rate of employment creation and the collapse of influx control.

Employed workers have become a major organised force, and are now to be found in the semi-skilled/skilled categories, as opposed to the unskilled/semi-skilled category of the racial Fordist era. At the same time, *relative* to the mass of urbanised unemployed, they are in well-paid and secure employment.

At the other end of the spectrum, the major conglomerates have greatly extended their grip on the commanding heights of the economy. The mining and financial sectors were relatively favoured by stabilisation policies on exchange rates and interest rates, as compared with the manufacturing and commercial sectors. One consequence of this unevenness has been a significant increase in the concentration of ownership, particularly during the 1980s, as illiquid corporations in the latter two sectors shifted from debt to equity financing.

In addition, part of the attempt to adapt the racial Fordist model (and now increasingly part of the efforts to structure a new model, as we shall see below) has been the liberalisation of the financial markets. As poor profitability and low confidence produced a massive drop in company fixed investment, there has been substantial growth in the size of flows through the financial markets, which have also grown in sophistication. On the other hand, there has been little success (even in mining) in improving the unfavourable trend of rising production costs, both absolutely and in terms of international competitiveness.

Towards Resolution Of The Crisis

As noted above, the crisis is not yet resolved: we are still in the midst of the turning point. The ending of apartheid - the last important element of the old growth model - would finally make it possible - but not necessary - for a new growth model to emerge in the future.

Two general points can be made concerning preconditions for a new growth model. The first is that the economic crisis of the 1970s and 1980s has been a 'supply-side' crisis in the broadest sense of the term, that is, the origins of the decline in growth and the disintegration of the racial Fordist model are to be found in problems on the supply-side of the South African economy - in the process of production. It is only during the course of the crisis that inadequate demand became a factor.

As a result, a condition for a new growth model to emerge is that there be restructuring in order to lower costs of production. In addition, a new growth model will have to overcome in one way or another the second source of instability which has emerged during the course of the crisis - the vulnerability of manufacturing output levels to external shocks, because of its dependence on imported equipment and intermediate inputs. In other words, a new growth model cannot be based simply on an expansion of demand, for example through the redistribution of incomes.

The second general point is that a growth model cannot simply be constructed on the basis of a blueprint. A growth model emerges as the outcome of a political process, involving different social forces putting forward alternative 'strategies for accumulation', or policy packages. Each of these attempts to tie together a range of classes or other social forces in a commonality of interests (a positive-sum game). In a context different from the accumulation strategy, the interests of these groups might well conflict - a strategy for accumulation reorganises these opposing group interests, and synthesizes them so that gains are made by all groups incorporated within it (though not necessarily all groups in society).

One example of such an accumulation strategy is welfare Keynesianism, which reorganised the interests of both capital and labour, which had previously been expressed only in antagonistic terms. The policy package which it put forward expressed these interests in a different way and thereby advanced the interests of both workers (rising living standards) and business (growing markets) in advanced economies after the 1930s Depression. But it should be noted that this particular strategy is not directly translatable into contemporary South Africa since the economic crisis at that time reflected demand-side problems. A further point is that the success of the welfare Keynesian growth model required a range of supportive policies in produc-

tion, consumption and finance.

The high degree of class differentiation in South Africa, which has increased in the context of economic crisis, defines the terrain on which accumulation strategies are put forward. This implies, firstly, that an accumulation strategy will necessarily have to bring together, in a positive-sum context, a widely divergent array of group interests. But, secondly, it means it is unlikely that an accumulation strategy could incorporate all groups in society - indeed, important and powerful groups are likely to be excluded by any single accumulation strategy.

What are the accumulation options on the table in South Africa? As in the 1940s, South Africa appears to be facing two alternative paths. Both articulate themselves in terms of a 'growth-redistribution' framework, but reflect the interests of different combinations of classes and groups. This is because the respective growth paths embodied in each accumulation strategy have strongly contrasting implications for the nature, extent and time-scale of redistribution. For this reason, it is difficult to conceive of a 'compromise' *between* the two alternative accumulation strategies (as distinct from the 'compromise' contained *within* each strategy between different social groups).

The achievement of a constitutional settlement, and its terms, will be naturally one critical factor in shaping which of the two alternatives is ultimately pursued. In relation to this, it is worth noting (though the point cannot be elaborated here) that a constitutional settlement, if it is achieved, will itself reorganise (some of) the interests of different groups in South African society, in the context of transforming the balance of forces amongst them.

It is also possible that a constitutional settlement could shift the balance between social forces in such a way as to *prevent* the emergence of any viable coalition linked to one or other accumulation strategy. In such a situation, sustained economic growth is unlikely to occur.

Neo-liberal Export-oriented Growth

Over the past decade and more, there has been much debate and division within big business, and between this group and the government, over the appropriate policies necessary to transform the nature of South African capitalism so as to resolve its crisis. Without detailing all this history, it is important to point out that one of the central shifts which the 'new' administration of FW de Klerk has brought about, has been to introduce into government economic policy a much higher degree of internal coherence, as well as greater consonance with the expressed concerns of most of South

African big business. While many of the policies incorporated into this neo-liberal export-oriented strategy have been put forward for many years, over the past several months a start has been made on implementing many of them, while others which do not fit into the approach have been abandoned.

The strategy here focusses on restructuring and regenerating the manufacturing sector in particular, by using 'neo-liberal' (market-based) policies to achieve two goals: altering cost structures to restore the profitability of production, and expanding markets for manufactures especially through exports.

Neo-liberal policies involve, firstly, the state limiting its own economic activity in relation to the provision of goods and services. Privatisation clearly falls within this category.

Secondly, state intervention in the activities of other economic agents is limited to defining the broad parameters of market processes, that is, the general cost levels of productive factors (labour and capital especially) and other incentives (such as tax allowances and subsidies). The autonomous responses of economic agents to these changes in market price 'signals' will produce, according to this view, the desired transformation of the profitability and the structure of production.

Underlying this approach is a particular theory of how markets work - that the commodities bought and sold in markets are homogeneous; and that the market processes themselves are based on 'rational' actions by economic agents, and are thus themselves uniform and predictable. On the basis of these assumptions, markets are regarded as efficient allocators of economic resources.

Policies intended to redefine market parameters in this way include the new General Export Incentive Scheme (which spelled the end of the targeted intervention approach of the individual industry-based Structural Adjustment Programmes) and a start to overhauling the tariff structure; and the deregulation of the financial system referred to above, which has enhanced the degree of control by the major conglomerates over financial flows. There has also over the past few months been much talk about the need for restraint in nominal wage increases. This has not yet been translated into active policy, but the likelihood is that given the purpose of the 'new regime' this will occur in some form or other.

The major purpose of these transformations in the cost structure of industry is to make South African manufacturing internationally competitive. Although manufactured exports are talked about in a fairly general sense, the emphasis is clearly on beneficiation of minerals and other commodities

currently exported in a semi-processed form, together with other intermediate manufactures.

The aim therefore is clearly to achieve economic growth along the same capital-intensive, raw material-based path as in the past. The investment and employment implications of this strategy are clear, in both the medium and the long term. On the one hand, the direct employment potential is quite limited. At the same time, for growth of this sort to succeed, the larger proportion of the overall surplus will have to be invested in installing and renewing the technologies required to establish and maintain international competitiveness. The unanswered question facing this accumulation strategy is whether firms will respond as intended to the new price signals. In other words, given the very low confidence levels of South African industry over the past decade and more, will the transformation of market conditions be sufficient to draw financial resources into investment projects with high risk profiles and long lead times.

Obviously, the immediate intention of the overall strategy is to meet the needs of big business and some (though not all) other white sectors. But the interests of significant strata of the black population - organised labour and middle classes - can conceivably be reorganised so as also to be accommodated within this approach, especially in a post-apartheid context.

Those blacks employed in the major sectors of this economy - mining, large-scale manufacturing, and finance - would clearly benefit substantially from their location. This would include organised workers, who could achieve wage gains in line with productivity growth which would be expected to be fairly rapid. (In other words, and this should be stressed, it is this strategy that is likely to expand the 'wedge' between employed and unemployed, notwithstanding the fact that wage restraint is one feature of the policy package.) It would also include black middle class strata.

'Redistribution' within this strategy would, it seems, be separated from economic growth, and focus on those groups *not* directly incorporated into the growth process. It would take a number of forms. First, it would involve the channeling of some small fraction of the additional resources, available from the expected boost to growth, to the 'disadvantaged' sectors of the population. This is evidently the intention of mechanisms such as the recently-announced R3bn 'Jan Steyn Fund' equivalent to about 4% of the total expenditure of the Budget. The announcement of this fund in the March 1990 Budget has been followed by the establishment of several private foundations by large South African companies, with essentially the same purpose.

These funds would provide the initial capital, on the basis of which these 'development areas' (as the official jargon puts it) would be expected to

'develop themselves' more or less independently of the capital-intensive, large-scale manufacturing sector. In essence, the urban poor would have to meet their own needs in terms of employment and basic needs.

A second significant element of this 'self-development' process, and similarly indicative of the neo-liberal approach to policy, is deregulation in relation to small business. This is intended to enable the flourishing of black-owned micro-enterprises. But beyond the removal of legal constraints, little of a more active nature is being done, or apparently intended, by way of enhancing the flows of capital, skills, and other prerequisites to this sector.

The neo-liberal export-oriented strategy would, in sum, be likely to reinforce and extend a dualistic structure of society, as income inequality within the black population, and indeed overall inequality, would probably widen. Some groups would be incorporated within the 'compromise' on which the strategy would be based, while a large sector of urban and rural poor would be excluded, obtaining benefit from the secondary redistributive mechanisms, and hence on a more limited scale and over a more drawn-out time period.

This consideration raises the critical issue of the prospects for political stability in the context of the neo-liberal accumulation strategy. In particular, it raises the question of the relation between this accumulation strategy and the government of a newly-constituted non-racial democratic South Africa. The outlines of an answer to this question can be read from the announcement that 'black political organisations' would be invited to consult and participate in the process of disbursing this fund.

These organisations are evidently perceived as the vehicle through which the poorest sectors of the population are to be linked into the overall accumulation strategy. A corollary of this is that these organisations would carry the responsibility for 'domesticating' their constituencies.

This role could be played under present constitutional circumstances, as political activity becomes 'normalised'. But it would also be conceivable, indeed even more so, in a post-apartheid scenario. A new government, based primarily on the 'new' urban black insiders - middle classes and employed workers - might well find it hard to resist the argument, inevitably presented as based on hard-headed economic logic, that it should leave the industrial 'engine of growth' more or less untouched and under the direction of those who currently manage it. In exchange it would receive a slice of the fiscal cake for 'redistribution' among more marginal groupings, thereby enabling the retention of some political support amongst these sectors.

This scenario is a familiar one in recent Southern African history. It is also worth noting that these are almost the precise terms in which those who

identify themselves as 'social democrats' present their policy case. The logic of the argument presented here suggests that the 'grand compromise' which they support is most likely to lead to the continued and reinforced marginalisation of the very sectors of society they purport to be most concerned about.

Towards An Alternative

The neo-liberal export-oriented accumulation strategy is already in the process of being implemented by government and business, though naturally this does not necessarily mean that it will define the form of accumulation for South Africa over the next development phase. As noted above, the focus of this strategy is the response to the problems behind the crisis of economic growth over the past 15 years - the poor profitability of production and the instability of export earnings.

The basis for an alternative strategy for future accumulation lies in the attempt to address directly not only the problem of low economic growth, but also some of the contradictions - of unemployment and extreme *relative* poverty - which arose out of the 'choice' of 'racial Fordism' in the 1940s, and which have been dramatically magnified by the crisis of that growth path.

The path abandoned in the 1940s would have aimed to absorb the labour surplus emerging from the agricultural sector, through the expansion of labour-intensive basic consumer goods industries, for the domestic market in the first instance. This is precisely the objective, in broad terms, of the alternative strategy open to South Africa today, although the strategy itself must necessarily be based upon current circumstances.

The need for an alternative accumulation strategy with these objectives has been articulated in recent years in the context of the policy debates within government and business, in the form of the 'inward industrialisation' view put forward by Professor Jan Lombard of the South African Reserve Bank, and others within the state grouped around him. 'Inward industrialisation' has been based upon the argument that black urbanisation has led to a shift in distribution of incomes and in the composition of consumer demand, which provided the scope, and the need, for changes in, and the expansion of, production. Their policy approach to these objectives was, however, based upon a neo-liberal perspective, and appears to be increasingly subordinate to the export-oriented path.

An accumulation strategy with similar objectives, but based on a very different set of policy mechanisms, is now in the process of being elaborated by economists broadly aligned with the ANC and allied organisations, especially COSATU. The process of working out this policy package took a

substantial step forward through the workshop held in Harare at the end of April. The 60 economists and officials of the ANC and COSATU produced there a lengthy document (the short version runs to 12 pages) outlining proposals on economic policy for a democratic non-racial South Africa. This document is now being discussed by the wider leadership and membership of these organisations, and will serve as the starting point for future workshops and conferences now being arranged, to develop and deepen the debate on economic policy.

It is neither possible nor appropriate to spell out here all the details of these policy proposals. Instead, I will merely point to some of the major features of this accumulation strategy, especially those which distinguish it from the neo-liberal export-oriented strategy, and also to some of the major obstacles.

The broad objective of this strategy, as noted, is to expand both employment creation and the production of basic consumer goods. In other words, rather than separating redistribution and economic growth, the aim would be to achieve growth through the more extensive and more rapid redistribution of incomes and wealth. This strategy would be based on a synthesis of interests, bringing together not only the employed working class and the mass of urban unemployed, but also the middle classes (black and white).

The first, and perhaps central, point about this strategy is that it cannot be premised on a direct redistribution of incomes, whether in the form of 'high wages' for organised labour, or of some kind of income subsidy for the unemployed. Following this route would lead quickly to supply bottlenecks and higher levels of inflation eroding any potential real gains. Furthermore, it would simply exacerbate one of the underlying causes of the crisis, which was seen (above) to have originated on the supply-side of the South African economy. For this reason, like the neo-liberal export-oriented strategy, the supply-side - that is, the restructuring of production - must be the focus of a new accumulation strategy.

This suggests that the essential issue is not the redistribution of consumption, but the redistribution of *investment*. On the one hand, the level of investment in productive activity would have to be substantially increased, especially by drawing funds out of financial markets. At the same time, the emphasis in the composition of productive investment would need to be shifted away from the current situation towards those industries and sectors targeted for expanded production as part of the overall accumulation strategy.

Alternative views exist as to the appropriate sectoral and industrial destinations for greater investment. One view suggests that the emphasis should be upon expanding labour-intensive light industries in the formal sector, such

as food, clothing, furniture and so on, to try and take advantage of potential economies of scale. A contrasting view is that investment should be actively directed towards the expansion of infrastructural services, such as electricity and telephones, to the black townships in particular. This would encourage a more spontaneous development of 'informal sector' manufacturing micro-enterprises producing consumer goods, and expanding employment. It is a noteworthy feature of South Africa's informal sector that it is substantially oriented towards commerce and services, rather than manufacturing.

There are contained within this difference of emphasis a number of important analytical and empirical issues which require further research. The underlying question concerns the nature of growth in a dualistic economy, but there is also a need for investigation into the relation between scale of enterprise and employment creation potential; relative capital costs; and the reasons for the limited manufacturing capacity within South Africa's informal sector.

Related to this complex of questions is the need to investigate the macro-economic potential of, and constraints on, alternative strategies on the housing question, since construction is possibly the most important single sector to be targeted for investment.

'Redistributing investment' immediately raises the question of the role of the state. There seems to be no other way in which the quite fundamental shift of direction in economic development could be brought about, except by using the capacities of the state as a counterweight to the inevitably reluctant and extremely powerful private economic agents, most especially the conglomerates (to which we will return below). In the context of this accumulation strategy, the debate is over the particularities of state intervention, not over its centrality. There is no good reason to suppose that the future South African state will be different, or indeed should be, from states in a widely diverse range of other historical experiences, in playing a substantial role of spurring and shaping the economic advancement of the society.

Again there are divergent positions as to how the state should best intervene in the investment process. Those who emphasise the potential of the informal sector have argued that the social infrastructural prerequisites would be best delivered by newly-established or extended state corporations. On the other hand, the expansion of production along more conventional formal sector lines could not be based upon large state corporations. Instead, the state would have to intervene in the private sector investment process to ensure that resources were channelled in the desired directions by private firms themselves.

It is an important feature of the analytical approach adopted here that the

issue of the appropriate form of state intervention cannot be decided on general principles, but would be determined on the basis of strategy and policies developed on a sector-by-sector basis (though by no means all sectors would necessarily be targeted for intervention). State intervention in other words would be targeted and selective, rather than being overarching, as for example in the central planning model formerly found in eastern Europe. At the same time, where it was undertaken, intervention would be pervasive, that is, far-reaching in shaping the activities of economic agents, as opposed to the neo-liberal reliance on autonomous responses.

Underlying this approach is a fundamentally different view of the nature of markets, and the relation between markets and planning. Instead of counterposing 'free' markets to constraining regulations and plans (as in the neo-liberal paradigm), both market and plan are understood as institutional processes, enabling and constraining economic agents. From this perspective, the view of the market as an efficient and optimal mechanism for allocating resources is seen to be quite narrow, and limited to the static framework of a given environment. Of far more interest are dynamic questions such as the interaction over time between institutional change and changes in the behaviour of economic agents.

In other words, while all economies are seen to be 'mixed', that is, containing both market and planning processes, the policy problem is not to find the optimal mix between the two, but to manage their interaction over time, so as to achieve dynamic, rather than static, efficiency. This demands the continuous planning and transforming of the market environment within which firms operate, with the objective of steering the activities of firms in line with wider social and developmental objectives. Over and above individual sectoral planning, a key element of the process must be planning of a more macro-economic nature, not only to direct relations between sectors, but also to enable shifts of emphasis in the overall growth path. Thus, as the South African economy approached a position of full employment and the satisfaction of the most basic consumer needs (a process which will undoubtedly take many years), it will be necessary to shift the emphasis in investment policy.

In an economy with a large and powerful private sector, the relation between business firms and government planning institutions is obviously critical to the success of the growth model. If this relationship is characterised by conflict rather than co-operation, the outcome can only be dynamic *inefficiency*, and continued stagnation. Co-operation requires on the one hand that firms be involved in the sectoral planning process (as indeed should labour be). But it requires also that firms accept a subordinate

role in this process, on the basis that the planning process will create the basis for profitable production.

In this context, calls for, and debate about, the merits of nationalisation can be seen in a different light. On the one hand, decisions about the state's direct role in the provision of goods and services are located within a much broader set of considerations of its capacity to influence the use of economic assets which it does not immediately own. Hence, actual nationalisation - in the sense of the state taking over ownership of assets currently privately-owned - is likely to be appropriate in only a limited number of situations.

On the other hand, the state's role requires it to be the dominant actor in the economy. For this reason, the central problem facing this accumulation strategy is policy towards the conglomerates. For the 'redistribution of investment', the conglomerates cannot be left in their present form.

Comparative experience from both the advanced capitalist economies and the east Asian NICs suggests that the capacity of a state to intervene in, and direct, private sector investment depends critically on the nature of the financial system transforming savings into investment, and in particular on the relative weights of bank credit provision and capital market processes in providing firms with the necessary external funds (that is, over and above retained profits). Where banks are critical in providing finance to industry, and capital markets are less developed, the state can shape industrial development through central bank regulation of bank lending policies. This is the situation in, for example, West Germany, Japan or Taiwan. It stands in contrast to the US or UK economies, where the dominance of the stock markets and the resulting diffusion of capital mobilisation makes state intervention extremely difficult.

In the South African case, the highly concentrated corporate structure dominates the provision of external finance to industrial firms, financial linkages within the various conglomerates constituting the nexus of the process. The subordinate position of the banks to non-bank financial intermediaries within the conglomerate structure reinforces the latter's relative immunity from state control. The recent conflict between the Reserve Bank and the commercial banks over Prime Rate is a reflection of this.

Restructuring private sector investment would require, therefore, direct intervention by the state to restructure the financial networks comprising the conglomerates. This would best be carried out not by nationalisation, but by the use of anti-trust policy, specifically the dissolution of the holding companies, which are the critical feature of South Africa's conglomerate structure. The controlled sale of the holding companies' shareholdings in operating companies would achieve a more equitable ownership distribu-

tion, especially if affirmative action was used to promote black ownership of business at the same time. This policy would produce a private sector that remained productively powerful, but was far less concentrated, and thus more likely to be subject to state intervention. This is not to deny the argument that the conglomerate structure has its own benefits, relating to economies of scale and of information.

An interesting and important historical parallel in this regard is action taken by the United States Occupation Force in Japan after 1945. The *zaibatsu* conglomerates (which strongly supported the Imperial Japanese government during the war) were broken up via the banning of their holding companies, and the resale of their shareholdings. Although conglomerates re-emerged in Japan during the 1950s, after the Occupation had terminated, their structure was quite different from the pre-war situation, since the banks were now at the centre. The 'new' conglomerates were thus subject to the economic leadership of the Japanese state, and played an important role in the 'Japanese economic miracle'.

Is it possible for a new democratic and non-racial government to undertake such dramatic action? The question of the feasibility of confronting the conglomerates is obviously the central one for this alternative accumulation strategy. Even a 'gradualist' approach based upon increased taxation together with the reintroduction of prescribed assets may, in the context of the overall accumulation strategy, prove to be more than the conglomerates are prepared to stomach. It needs to be emphasised also that it is not simply the composition of investment that needs to be altered, but its level which needs to be increased. It cannot be assumed that private sector investment, and therefore surplus, will automatically increase from its abysmally low levels of most of the past 15 years, in the context of even a moderate post-apartheid government trying to move cautiously away from inherited neo-liberal policies towards a more development-oriented approach.

In other words, a confrontation with the conglomerates may well be inevitable. In such a situation, two points are worth underlining. One is that this approach retains, and indeed enhances, the role of the private sector. The other is that, related to this, the dissolution of the conglomerates provides an important mechanism for linking the interests of the middle classes, including small and medium-sized businesses, with those of the working classes (employed and unemployed).

Space constraints rule out any consideration in this paper of a number of potential further constraints for this accumulation strategy, including external trade, and the sources of savings.

What does need to be considered here, however, are the implications for

the rate and time-scale of economic growth. To begin with, it should be emphasised that expanding and redistributing investment will directly produce economic growth - this is not a strategy for simply expanding consumption. At the same time, it must be recognised that some increase in consumption levels over the short-term must reduce the overall surplus available for growth. Adding to this is the need to expand the delivery of services (education, health, welfare) to those sectors and areas where they are currently in limited availability. This is a major political demand, and expectations will have to be met to some degree.

Employment creation through labour-intensive industrial expansion will also involve some trade-off with productivity growth deriving from increased applications of technology, at least until the labour surplus is absorbed. For all of these reasons, a first response to the issue of the rate of economic growth might suggest that a somewhat lower rate would be achieved, than by a path which placed stricter limits on aggregate consumption growth. This might also be considered a price worth paying for achieving greater equity.

To leave this question here would be to remain trapped in a static framework, however. What needs to be taken into account in addition are the productivity enhancements and dynamic efficiency gains derivable from the sectoral planning approach. This allows the more rapid diffusion of new forms of organisation of, and methods of, production, as well as the avoidance of wasteful competition, and duplication of effort. Comparative experience suggests that this approach presents a much more promising route to cost savings and restored profitability, than the neo-liberal attempts to 'get the prices right'. Viewing the growth potential of this accumulation strategy from this dynamic perspective, then, suggests that it could offer at least as much in terms of a growth dividend for South African society as a whole, as the current government/big business view, while far surpassing the latter in terms of the scale and pace of increased equality.

Conclusion

South Africa's future economic growth path will not be determined by debate amongst economists. Rather, it will emerge out of the political process and reflect the balance of power there. But the debate is nonetheless important in clarifying the possibilities and their consequences.

I hope I have succeeded here in two goals. First, it should be clear that real alternatives do exist. The debate over our economic future is too often presented as a dispute between those on one side with a clear and sober view of economic realities and constraints, and an insistence on efficiency, and those on the other trying to link the overwhelming expectations of their

political constituency with a naive understanding of economic possibilities and an outdated reliance on the state. Instead, the debate should be seen as involving one side trapped within a static framework offering only a choice of the appropriate point in a trade-off between growth and redistribution; and those whose view is both oriented towards dynamic development, and greater equality.

Secondly, it should be clear that only one of the two alternatives can offer a way forward on the question of forming a cohesive and unified nation out of the diverse and conflictual structure of South African society. To achieve this will require in any event the best part of a generation. But it is an essential ingredient for South Africa's economic future to be secured in the longer run.

Note:

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Bibliographic Note:

The first section of this paper is fully elaborated in my chapter, 'South Africa's Economic Crisis: An Overview', in S Gelb (ed), (1990) *South Africa's Economic Crisis* (Cape Town: David Philip).

Section 2 draws on the argument in G Esping Andersen (1985) - *Politics against Markets: the social democratic road to power* (Princeton: Princeton UP)

The 'inward industrialisation' argument referred to in Section 4 is spelled out in JA Lombard et al (1985), 'Industrialisation and Growth' (Mercabank Focus on Key Economic Issues, 36). The discussion of growth strategy in this section draws on ideas expressed by members of the Economic Trends group at their April 1990 meeting. Interesting discussions of the 'planning/market' couplet can be found in G Hodgson (1988) - *Economics and Institutions* (Cambridge: Polity Press), and M Best (1988) *The New Competition* (Cambridge: Polity Press). Comparative analysis of the relations between the state, the financial system and industrial investment can be found in J Zysman (1983) - *Governments, Markets and Growth: Financial Systems and the Politics of Industrial Change* Oxford: Martin Robertson and R Wade (1988) - 'The role of government in overcoming market failure: Taiwan, Republic of Korea and Japan', in H Hughes (ed) - *Achieving Industrialisation in East Asia* (Cambridge: Cambridge UP). Details of the US anti-trust policy in post-war Japan can be found in GC Allen (1958) - *Japan's Economic Recovery* (London: Oxford UP for the Royal Institute for International Affairs), - and EM Hadley (1979) *Antitrust in Japan* (Princeton: Princeton UP).