

UNIVERSITY OF THE WITWATERSRAND  
AFRICAN STUDIES INSTITUTE

African Studies Seminar Paper  
to be presented in RW  
4.00pm OCTOBER 1990

**Title:** The Economy of a Democratic South Africa: A Discussion Paper.

**by:** David Lazar

**No.** 280

## 1 INTRODUCTION

This paper examines some recent contributions to the economic policy of a democratic government. In sections 2, 3, 4 and 5 I summarise papers by Laurence Harris, Vella Pillay, Robert Davies and Alec Erwin. In later sections I develop certain criticisms of these papers.

## 2 LAURENCE HARRIS: A MIXED ECONOMY ORIENTED TOWARDS SOCIALISM<sup>1</sup>

Harris examines the issues which face the ANC in its attempts to develop a mixed economy 'oriented towards socialism'. He lists three criteria for distinguishing between different kinds of mixed economy: which social classes hold economic power; how investible surplus is used; the extent of the economy's independence of the world market. I shall return to his notion of a relatively autonomous economy later in the paper.

He notes the ANC's commitment to 'the twin objectives of redistribution and high economic growth' (p.3) and his proposals seek to realise these aims. He believes that it is essential to change the role of South Africa's large public sector.

A democratic government may, he states, wish to control the 'commanding heights'. Harris elucidates the term 'commanding heights' in terms of three distinctive features of such industries. First, particular industries produce goods which are fundamental 'material inputs for industrial development' (p.5). Second, certain institutions (banks, mining finance houses) play a major role in investment in the economy. Third, any industry which plays an important role in employment is also a candidate for nationalization because labour practices are central to apartheid.

Harris recognises that the amount of state ownership is only one aspect of a mixed economy and its operation. He briefly discusses the issue of whether publicly owned firms are less efficient than privately owned ones and disputes the contention that they are. He accepts that the argument that publicly owned firms are less profitable is more plausible. His unconvincing answer to this problem is to note that profitability is often a poor measure of efficiency: 'efficiency is not a neutral technical measure' (p. 8); profitability may merely reflect repressive controls on labour. I shall return to this point in the critical sections of this paper.

---

<sup>1</sup> Laurence Harris, 'The Mixed Economy of a Democratic South Africa' (July 1989)

Harris then tackles the matter of the costs of nationalization. He concludes, 'If nationalisation is desirable, its financial implications, too, can be tackled.' (p.9). I am doubtful about this claim and shall examine it later.

Harris recognises that the mixed economy will need to include a 'substantial private sector' and he notes that the private sector tends to have greater 'qualities of flexibility' than does the public sector. In his view, 'the roles of the market, regulation, and planning are much more important than the degree of state ownership.' (p.10)

How then should the state regulate the economy in order to 'overturn the legacy of apartheid' (p.11)? First, he believes that the labour practices of firms and minimum wages should be regulated. Second, the state will need to control specific key prices: the price of maize, the exchange rate of the currency and interest rates. The control of exchange and interest rates would allow the state to direct and influence the direction of economic development. He contends that financial institutions will probably systematically evade these controls and nationalization may prove to be necessary. Third, the state budget will assume 'a major role in controlling the mixed economy.' (p.15). In sum, the framework Harris advocates gives the state responsibility for the 'overall direction of accumulation' but leaves most prices to market forces.

Harris's contribution to the debate is, in my view, statist and over optimistic about the ability of a democratized state to overcome opposition and fund its policies. These points will be developed in the critical sections of this paper.

### **3 VELLA PILLAY'S RESPONSE TO HARRIS'S PAPER<sup>2</sup>**

My summary of this paper is selective. Pillay's paper is concerned with two basic questions: the nature of the economy which will be inherited by a democratic government and the relations of power during the transition to democracy. On the nature of the economy, Pillay refers to the dominance of the mining industry, the dependence on foreign investment and so on as evidence that the South African economy exhibits 'significant elements of dependency' (p.3).

Pillay is far more concerned with the possibility of capital and skill flight and problems like the collapse of the currency. This leads him to a brief analysis of the possible characteristics of the transition; he claims that a 'stand-off' is the most likely situation.

---

<sup>2</sup> Vella Pillay, 'Some Problems of a Mixed Economy in South Africa' (October 9, 1989)

Pillay then considers the 'preferred outcomes' in the 'social and economic orders' in the early stages of democracy. He discusses the policies needed to achieve these goals which include enough food, shelter, social security, medical facilities, unemployment benefits, free and equal education and an improvement in the working conditions and power of workers. State social expenditure will have to grow 'considerably' as a proportion of national output. Overall state policy will have to be 'substantially more interventionist and redistributionary', top marginal tax rates may have to be extremely high, nationalization of 'the more profitable sectors of the economy' may be necessary and, of course, economic growth is essential.

Pillay states that the key problem for a democratic government will be the opposition of the National Party government and the conglomerates. The initial aim of a democratic government will, therefore, be to win and consolidate political power.

Pillay discusses nationalization. He believes that, despite the 'mixed experience' of nationalization, such policies have not been 'entirely negative' (p.9). He contends that the power of the conglomerates is a strong argument for nationalization. However, Pillay counsels caution: the conglomerates have the power to undermine a democratic government. Instead, an anti-monopoly and anti-trust policy may be an effective means to control the power of the conglomerates.

Pillay's caution on nationalization is manifest again when he discusses the financial system. He states that an alternative to nationalization of the banking and credit system is for the state to create a set of financial institutions under its control; these would then compete with the privately owned institutions.

Pillay, like Harris, has a very statist conception of the role of a democratic state. This is evident in his comment about the need for a democratic government to confront difficult choices if it is to steer the economy 'in a predetermined direction'.

#### **4 VELLA PILLAY: THE WAY OUT OF SOUTH AFRICA'S CRISIS<sup>3</sup>**

Pillay starts by outlining the key features of South Africa's economic crisis, namely: economic stagnation, falling living standards (especially for black people), chronically high inflation, a fiscal crisis (that is, great difficulty in funding state expenditure programmes) and, finally, low levels of private sector investment.

The South African economy has been 'destabilised' by popular resistance to apartheid. The 'way out' of the economic crisis is, consequently, integrally connected to meeting the basic needs of black people (see page XXX above).

In Pillay's opinion the South African economy suffers from demand constraints because of the poverty of black people. He advocates a 30% to 40% increase in the average wage of black people and a house-building program of 1m houses p.a. These measures, he believes, will lead the South African economy into economic growth.

The post-apartheid state will have to be interventionist. How will increased state expenditure be funded? Pillay points to the huge savings which he contends will result from the ending of wasteful apartheid expenditures. He states, in addition, that the proposed large wage increases should be funded from corporate profits and, perhaps, a freeze on white incomes 'for a few years' (p.4).

Other policies will be required in Pillay's view. These will include: an anti-monopoly programme, spreading ownership of industry to disperse power, state influence on investment flows, and possible nationalization of privatized parastatals to develop a socially useful 'service and industrial infrastructure' and to assist in redistribution of wealth. Overall, Pillay contends, the state will have to be more interventionist over a whole range of issues including industrial and social policy.

---

<sup>3</sup> Vella Pillay, 'The Crisis and the Way Out', The Weekly Mail, March 30 1990

## **5 ROBERT DAVIES: DEALING WITH MONOPOLY CAPITAL<sup>4</sup>**

The South African economy rests on two pillars; first, six conglomerates (Anglo-American, Rembrandt, SA Mutual, Sanlam, Liberty Life, Anglovaal) dominate the private economy; second, the state sector is large, accounting for 29% of GDP in 1988.

A democratic state will be confronted by the great power of the conglomerates. However, it would be an error to assume that the conglomerates will be totally united against a democratic state.

What, Davies asks, is the fundamental strategic objective of ANC policy towards the conglomerates? He describes briefly how the apartheid system fails to meet 'even the most basic requirements of life' for the oppressed (p.4). He states that a profound shift of both economic policy and the nature of the economy is required to meet basic human needs and to allow working people to play a part 'in the direction of the economy' (p.5)

The ANC, Davies notes, is committed to a mixed economy which would allow private capital a 'considerable' role. He advocates the encouragement of alternatives rather than 'restricting the scope for private capital.' (p.6). Collective forms of enterprise will be required to prove themselves in competition with private enterprise. However, at a later point, Davies advocates the supervision and control of private capital. I shall return to this contradiction in Davies's position in the critical sections of the paper.

How will the new forms of production be funded? Davies points to, first, redistribution of wealth and, second, the need to ensure that 'a significant proportion of investible surplus is made available to support a re-orientation of production' (p.7).

A fundamental issue, Davies states, is about the extent to which the ANC should accommodate to private capital and the extent to which it should assert 'the interests of the people over capital.' (p.7). Another key problem is the likely response of the conglomerates to ANC policy. It is necessary, he claims, to identify areas of cooperation and agreement.

We now come to the most significant section of the paper. Rob outlines his conception of the major aims of a democratic government. First, it is necessary to assemble the finance to support alternative forms of enterprises. Second, a state planning body should channel a high proportion of available surplus into selected projects. Third, the state should 'aim to supervise and control the activities of private capital' (p.10). Anyone who reads these points will be left in no doubt: Davies holds an

---

<sup>4</sup> Robert Davies, Draft of 'Dealing with Monopoly Capital in a Mixed Economy' (February 4 1990)

exceptionally statist view of the desirable policy of a democratic government despite his calls for greater worker involvement in enterprises.

Davies outlines a range of options for achieving these three aims. Most of these options are complementary rather than exclusive. These include: extensive nationalization without compensation, selective nationalization by confiscation or using funds raised by various means, anti-trust policy, wider representation on boards of large firms, and encouraging working class action.

Davies ends by stating that, in his view, the conglomerates will be forced to accommodate to some extent to ANC aspirations.

## **6 VELLA PILLAY'S RESPONSE TO DAVIES<sup>5</sup>**

Pillay is concerned with two matters. First, he is sceptical of Davies' claim that the conglomerates do accept that a democratic state would be interventionist. In his view, they may try to confine intervention to the 'second logic' economy of small black business, leaving the 'first logic' economy of the big firms complete market freedom. It is essential, he states, that the ANC analyze carefully which enterprises will be more and less opposed to ANC policies.

Second, turns to Davies' attempt to reconcile the ANC's long-term commitment to a mixed economy including a large state sector with its promise to leave private capital considerable freedom. Pillay takes issue with Davies' proposal that the emphasis should be on developing alternatives to the existing enterprises. Pillay believes that it will be essential to tackle the enormous 'monopoly' power early on, by breaking up the conglomerates using anti-trust legislation.

---

<sup>5</sup> Vella Pillay, 'A Comment on Comrade Rob Davies' Paper on "Dealing with Monopoly Capital in a Mixed Economy" (December 28 1990)

## **7 ALEC ERWIN: A DEMOCRATIC PLANNED ECONOMY<sup>6</sup>**

Erwin states that poverty and unemployment can only be dealt with by 'a planned reconstruction of the economy' (p.45). He identifies four crucial issues for debate: the character of the economic crisis, the appropriateness of free market solutions, whether a planned economy would be a solution to the crisis, and whether a planned economy is actually feasible.

He refers to the first report (1988) of COSATU's Economic Trends project which argued that there are 'substantial structural barriers to economic growth' in South Africa.

He distinguishes between 'intensive' and 'extensive' accumulation. 'Intensive' accumulation represents additional investment in existing capacity to increase productivity and output. 'Extensive' accumulation is investment in new capacity. A balance between these forms of accumulation is desirable.

Capital, he states, is attempting to maintain profitability using intensive accumulation: this increases unemployment. Furthermore, only large firms can afford such investment and this increases the trend towards larger conglomerates.

The Economic Trends report locates the major cause of the economic crisis in South Africa's reliance on industrialization based upon migrant mine labour and apartheid in manufacturing industries. As a result the manufacturing sector is characterized by high costs and international uncompetitiveness. Indeed, the reliance on cheap labour means that growth based on the supply of cheap manufactured goods to the domestic market is unlikely.

Erwin rejects both of the proposed capitalist solutions. The first advocates a free market policy. Erwin is sceptical about the claim that this policy would lead to lower prices of manufactured goods, greater international competitiveness and an opening up of the low-income domestic market. The second capitalist solution recommends 'inward industrialization' based on a Keynesian form of state intervention. This strategy will fail because the attempt to change key prices (for instance, the price of capital) will rapidly confront the need to abridge the rights of private ownership, a path which proponents would eschew.

Erwin asks whether a 'planned economy' can solve the crisis. He rejects the notion of a command economy: it is successful at producing extensive accumulation but fails to effectively achieve intensive accumulation. The consequence of such failure is low living standards. Furthermore,

---

<sup>6</sup> Alec Erwin, 'Thoughts on a Planned Economy', Work in Progress, No. 61



command structures destroy democratic control of production with severe results of various kinds.

Erwin contends that a planned economy must address the need for both intensive and extensive accumulation. Extensive accumulation will reduce unemployment and produce basic products: it will entail economic restructuring and 'constraints on private ownership' (p.47). He notes that nationalization will not, of itself, be a solution. South Africa needs a variety of ownership structures, a democratically based planning mechanism and market forces. Market forces will 'facilitate intensive accumulation ... to raise productivity and lower relative prices.' (p.47)

Finally, Erwin claims that a planned economy is feasible. South Africa is rich in resources, has a 'developed productive capacity' and has strong community and worker-based democratic structures.

## **8 CRITICAL COMMENTS: INITIAL REMARKS<sup>7</sup>**

The ANC is, like South Africa generally, at a turning point. It may soon be governing South Africa: difficult choices have to be made; it is best that they are made sooner rather than later.

My critical remarks reflect several concerns. First, wishful thinking of all kinds must be avoided: planning and policies based on wishes have a tendency to become nightmares for all involved. Second, I am deeply sceptical about both the viability and desirability of statist economic policies, especially schemes for large-scale nationalization. Indeed, given the prevailing political and economic constraints, a largely market-led mixed economy is inevitable. Third, it is essential to reflect about opportunities for the development of small-scale grass-roots projects to enable communities to take, at least, some control over their lives. It is not enough to democratise the central state or even regional government.

---

<sup>7</sup> Over the years, I have found the following references immensely valuable: Alec Nove, The Economics of Feasible Socialism, London, George Allen & Unwin: 1983; Geoff Hodgson, The Democratic Economy, Harmondsworth: Penguin, 19???. Both Nove and Hodgson are convincing about the limitations of traditional socialist economic theories. Free market economics are criticised incisively by Hodgson and also by Raymond Plant, Equality, Markets & the State, London: Fabian Society, 19??.

I shall discuss, in successive sections: the economic and political realities which face the ANC; ownership and markets; profits in the mixed economy; costing expenditure proposals; inflation and bankruptcy; and, finally, policies to democratize the economy and encourage the development of non-racial practices.

## **9 ECONOMIC POLICY: REALITIES AND CONSTRAINTS**

Our analysis of the economic and political realities must be sober. First, the scale of misery among black people is simply immense but South Africa is not a rich country. Consequently solutions to even urgent, basic problems (for instance, shelter and a decent diet for all) cannot be achieved in the space of a few years.

Second, redistribution of wealth, income and opportunities are rightly central to ANC strategy. However, if radical policies for an immediate and large-scale extension of public ownership and dramatic redistribution of wealth and income are put into effect, they will cause severe problems of skill and capital flight. Drastic controls on capital movements will be a disastrous response to potential or actual capital flight: South Africa's access to crucial overseas export markets and to capital inflows will be jeopardised. Acceptance of a mixed economy entails acceptance that market processes cannot be directed and controlled in the manner that Pillay, Davies and Harris all (although, in different ways) advocate.

Third, every proposal for further public ownership, higher wages or for increased public spending must be rigorously costed, however justified any particular suggestion may be in principle. We cannot achieve all our goals in the immediate future following the transition to democracy. Anyone who has read Francis Wilson and Mamphela Ramphele's Uprooting Poverty<sup>8</sup> could never believe that even material poverty (let alone its psychological and political accompaniments) in South Africa can be completely abolished in, say, a dozen years.

Fourth, and this follows from what I have just written, when formulating goals one has to establish priorities and distinguish stages and identify what can realistically be achieved in each stage. And, it is not adequate to plan on the basis of 'best case' developments; provision must be made for 'worst case' developments in relation to overall policy and individual policy initiatives. Furthermore it is crucial that, while the ANC may wish to achieve certain aims at each stage, it must not encourage unrealistic expectations amongst its members and supporters. Only so much can be achieved at

---

<sup>8</sup> Francis Wilson & Mamphela Ramphele, Uprooting Poverty, New York & London: W.W. Norton, 1989

any time. The ANC should constantly remind its people that every decision to spend on one project is at the same time a decision not to spend on another. The ANC, therefore, requires clear priorities and these will be understood and supported only if they are democratically and widely debated. If things go wrong, supporters are more likely to be patient if one adopts a hard-headed strategy of this sort.

## **10 OWNERSHIP AND MARKETS**

Harris's 'The Mixed Economy of a Democratic South Africa' has had a major impact on ANC economic thinking. Like Pillay, Davies and Erwin, Harris recognizes that 'public ownership is not a panacea' (p.10) yet, all the same, he argues that large-scale nationalization is probably necessary. The grounds for his preferences are, to a large degree, first, that such nationalization will give the democratic state the power to control the direction of the economy and, second, that nationalization will change the behaviour of enterprises. I am sceptical on both counts.

Is Harris correct in claiming that nationalization will represent a transfer of power from Capital to the democratic state? The notion is that if one seizes these positions Capital will lose a certain amount of power and the democratic state will gain correspondingly. The implicit assumption of his paper, and of many other left-wing economists, is that economic power is located in particular places. But is this assumption credible? I very much doubt it. First, market power is not a static property which can be transferred by a change of ownership. Such market power as any firm appears to have is always at risk: it is threatened by competitors, changes in technology, the whims of consumers, loss of raw material sources, political changes, variations in the effectiveness of organization and the management team, the loss of strategic skills and so on. How can anyone assume that a democratic government will be able to take over all these, frequently intangible, features by buying out shareholders? To put it differently, buying out previous shareholders is no guarantee that one will inherit what previously existed. The owners of Capital will adopt various strategies to protect their positions: they will move funds beyond the reach of the South African government, key personnel will leave or resist the new situation in many ways (and how will the ANC replace these individuals?), the massive funds paid to previous owners will be used in other activities, and so on. The democratic state will, very probably, in some cases inherit virtual shells at great cost to the taxpayer and the opportunity cost will be other valuable projects foregone. In other words, power cannot easily be seized; it so easily dissolves in one's hands, leaving one with little but frustration and a declining economy.

What about Harris's second ground for nationalization, namely, that it will change the behaviour of firms? I shall develop my arguments in relation to

financial markets because it is with these that I am most familiar. Harris's proposals for the banks and financial institutions assume that public control will enable the state to change the way firms operate: there will be a shift away from the mere pursuit of capital accumulation in the direction of a balanced search for economic and social development. How convincing is this idea?

I assume that a democratic South Africa will have a relatively open economy because this will be essential to attract foreign investment and to sell South African exports abroad. Indeed, as a general rule, even firms oriented wholly or largely to the domestic market will gain from relatively free competition because it will force them to become more efficient and productive. Even if the ANC or any conceivable democratic government is not convinced by these arguments, the Western powers, the conglomerates and the present state have and will use the power to insist on this outcome.

Publicly owned financial institutions will be subject to exactly the same market constraints as are private enterprises. For example, they will pay and charge prevailing market interest rates on the wholesale capital markets. Now, of course, one can run publicly owned financial institutions for use not profit but if all are so directed, the implication is that one important sector of the economy will make little or no contribution to the production of investible surplus. It is hardly necessary to state that this will have an effect on prospects for economic growth. If, however, publicly owned institutions are expected to pursue profits, how will their operations differ from those of privately owned firms? Returning to the matter of power, how much more control will the democratic state have over the character of financial processes, if the financial institutions are nationalized, than it does now? It is essential that advocates of nationalization provide a very clear answer to this question. Finally, it must be emphasised that my arguments do not preclude a measure of new public ownership, perhaps in partnership with privately owned institutions, which is directed to social goals, but only if these goals cannot be otherwise achieved.

Davies and Harris are favourable to a wide extension of public ownership in an economy already characterised by a very large state sector. There are many good arguments against a wide extension and these are somewhat neglected. First, nationalization without compensation is quite out of the question: it will lead to enormous disruption and possibly even civil war. Nationalization will, consequently, have to be funded in one way or another. The notion that one can pay former owners in interest bearing state bonds (suggested as an option by Harris) must be resisted. Private capital will not continue to cooperate under onerous conditions of this kind. Consequently, nationalization will have to be paid for at the expense of other possibilities foregone. The case for widespread nationalization on the grounds that it will lead to a critical shift of power is, as I noted above, shaky but once one realises how expensive it will be to nationalize large, profitable firms, then it is difficult to understand why these proposals are so popular.

Let me state my argument in the form of a general rule: buying out shareholders in profitable and important firms will be expensive and should only take place if, in each case, it can be demonstrated that there are decisive grounds in favour.

There is a further reason for caution, not to say opposition, to proposals for a big extension of public ownership. Overall publicly owned firms will have to make profits to fund investment, both their own and (through taxation) other investment. Many South African products are already uncompetitive in international markets. Publicly owned firms will face exactly the same market constraints as the presently privately owned enterprises. Indeed, the situation has been exacerbated by the opening up of much of Eastern Europe to markets and private enterprise - competition from these low wage economies may be very stiff in coming years. Given this context, are there any good reasons to disrupt an already strained economy in favour of, to say the least, policies with uncertain and possibly disastrous effects?

Harris, Pillay and Davies are all unwilling to accept the implications of a commitment to a mixed economy. Each claims to accept that private capital will have a legitimate role and a wide-ranging autonomy. However, each writer hedges these concessions around with substantial restrictions. In practice none of them appears to be willing to accept the autonomous role of private capital which they claim is necessary. Harris believes the state should have responsibility for the 'overall direction of accumulation' while allowing most prices to be set by market forces. In practice, it would appear that nationalization will be the inevitable response if private capital does not follow where the state wishes to lead. To what extent is Harris prepared to allow investment to be allocated on the basis of market prices? Not to a very great extent it would seem. Davies refers to the need to 'supervise and control' private capital while elsewhere in the paper advocating the encouragement of public sector alternatives to private capital rather than nationalization<sup>9</sup> The overall tone of the paper (see section 6) above) leaves me in little doubt that the emphasis will be on control of private capital. Pillay<sup>10</sup>, in his comment on Harris's paper, writes about the state steering the economy 'in a predetermined direction'. Each writer adopts a statist position, that is, one which gives the state the primary role with private capital in a subordinate position.<sup>11</sup>

---

<sup>9</sup> 'Dealing with Monopoly Capital in a Mixed Economy': see pp. 10 & 6 respectively.

<sup>10</sup> 'Some Problems of a Mixed Economy in South Africa'

<sup>11</sup> Erwin's position (see section 7 above) is difficult to judge. However, he appears to be far more concerned than the other three writers discussed to insist on the dangers of planning without markets and democratic involvement.

My view on this is quite simple: a mixed economy is one in which there is state intervention but this intervention is kept strictly under control. This means that to a large degree market forces, except where they are creating major problems, should be allowed to operate. Major problems which might justify state intervention include severe environmental damage, the collapse of a large firm or plant with the danger of large-scale redundancies and so on. Normally, however, as long as an enterprise obeys the laws of the land, it should be free to operate in pursuit of profit. Acceptance of market forces means a willingness to work with private firms rather than a wish to control or direct them. The ANC has to decide which route it is to follow: statism or a genuine mixed economy.

## **11 PLANNING**

Each of the writers with whom we are concerned (Harris, Pillay, Davies and Erwin) has enormous confidence in the effectiveness of the kind of planning he advocates. I find it difficult to be sanguine about the predictability of the consequences of planning. State intervention in the functioning and/or consequences of market processes is often necessary and frequently relatively successful. However, a few words of caution are in order. State intervention can have effects altogether different from those intended. Let me provide an example from the development of financial markets, specifically the international capital markets known as 'euromarkets'.<sup>12</sup>

Euromarkets have their origin in the fact that participants in capital markets wished to escape regulation, particularly by the United States authorities. Indeed, these new markets developed so rapidly because they allowed participants to escape much of the regulation to which financial markets were normally subject (not just in the US but in other countries too, including the United Kingdom). This, in essence, is the story of the origins of the euromarkets. For a long time, the USA exerted tight controls on maximum interest rates (Regulation Q) and on foreign access to US capital markets (Interest Equalization Tax). Banks in Europe were able to offer higher rates of interest to holders of dollars than were those in the USA and (euro)dollars were therefore increasingly deposited with them. Borrowers of (euro)dollars were able to gain access to dollars which were not subject to Interest Equalization Tax. Therefore, a whole new set of financial markets and institutions, of great international significance, have developed as a direct consequence of acts - with different goals to those achieved - of US regulators.

The lesson of this example - if, as I believe is the case, it can be generalized - is that we should not depend too much on the effectiveness

---

<sup>12</sup> I am interested in the response of individuals present at the seminar about the extent to which this lesson can be generalized.

of planning initiatives. These comments must not, however, be treated as arguments for free markets with only minimal regulation. Examples of planning gone wrong can be matched, no doubt, with other (equally convincing) instances of markets which fail to meet all sorts of basic human needs.

## **12 PROFITS**

Acceptance of a mixed economy is inextricably connected to giving a high priority to profitability as a key measure of economic success. Here I am concerned with Harris's unsatisfactory response to this problem. He states that it is true that there is a case for arguing that private firms are more profitable than publicly owned firms. But lest this be thought of as an argument against large-scale nationalization, he states immediately that profitability is often a poor measure of efficiency. The reason is that profits may be high, productivity good but wages low as a result of repression. This may be true but it is not really an answer to the problem of the lower level of profits in many publicly owned firms than in comparable private firms.

This thorny issue cannot be avoided. Profits do matter; this is true whether we are referring to private or publicly owned firms. Profits are, despite Harris's remarks, an important measure of success and a means to pay for further projects<sup>13</sup>. The problem is that many publicly owned firms are expected to pursue profits and social usefulness simultaneously. The ANC must recognize that, to generate investment funds for investment and social expenditure, South Africa needs public enterprises to be very profitable indeed. Subsidies for carefully selected and socially useful projects will be necessary but they must be funded from the profits of publicly owned as well as ( and not only of) private firms.

---

<sup>13</sup> Pillay, unlike Harris, does confront the issue of the mixed international experience of nationalization ('Some Problems of a Mixed Economy in South Africa': p.9).

### **13 COSTING EXPENDITURE PROPOSALS**

Rigorous costing of all expenditure proposals, of whatever kind and however justified in principle, is essential if scarce resources are to be used wisely. My concern here is with Pillay's 'Some Problems of a Mixed Economy in South Africa' and 'The Crisis and the Way Out'. Pillay outlines in both papers important but, all the same, very ambitious proposals to deal with the living standards, environment and opportunities of the oppressed majority. The problem is that in neither paper does he attempt to cost the proposals. However, subsequently, in a paper for the Harare conference on economic policy organized by the ANC, COSATU and other groups he did attempt to estimate the quantities involved.<sup>14</sup> I am not convinced by this exercise for one simple reason: Pillay assumes that dismantling apartheid will create enormous savings in the short-term. The problem is one does not know whether this will be the case. In fact, the need to create new non-racial structures and fund redundancy payments for staff who are no longer needed or unwilling to work in the new structures may lead to increased costs in the early years of democracy.

It must be emphasised that we cannot - as so many ANC members and supporters appear to believe - achieve every urgent goal simultaneously: deal with unemployment of between three and five million in the black population, provide everyone with a living wage, house everyone in decent if basic homes, give everyone access to social security and adequate medical services, and provide free and equal education for all. Limited resources require the ANC to cost each policy and the total package (and do not assume a 'best case' development is inevitable), arrive at a clear hierarchy of priorities, and distinguish between the short-term and long-term. An ANC government cannot in the short term meet all basic needs. Improvements will take time to achieve and will depend upon hard, disciplined work and efficient use of scarce resources.

---

<sup>14</sup> Vella Pillay, 'Post Apartheid South Africa: The Macroeconomic Perspectives for Year One and Beyond', Harare Conference (on South African economy), March-April 1990.



## 14 INFLATION AND BANKRUPTCY

Pillay is, quite correctly, deeply concerned about low wages. In 'The Crisis and the Way Out', he advocates an immediate 30% to 40% increase in wages for black people. Nicoli Natrass, in the same Supplement to The Weekly Mail, counsels caution with respect to such proposals.<sup>15</sup> She refers to possible serious difficulties which may arise from strategies to boost low wages:

'Boosting wages is only a sensible strategy when growth is constrained by deficient demand for domestically produced goods or for goods which could be produced domestically at short notice.'

Let us consider some possible implications of this kind of criticism for Pillay's analysis in 'The Crisis and the Way Out'. Pillay contends that higher wages plus a public housing program for 1m houses per annum will lead South Africa into faster growth. The problem is that workers may choose to spend their higher wages disproportionately on imported, and often more competitive, foreign goods with resulting balance of payments problems. There is a further danger which must be considered: massive wage increases may fuel a surge in inflation which is already chronically high; the lowest paid would probably suffer most from higher inflation.

Natrass also remarks on what she characterizes as a failure of critics of apartheid to confront the possibility that economic restructuring might lead to bankruptcies. It is essential to examine Harris's, Pillay's, Davies's and Erwin's proposals in the light of her remarks. There is a real possibility that their proposals may raise rather than lower unemployment. Careful, realistic research on this point is a matter of great urgency.

## 15 TOWARDS A NON-RACIAL AND MORE DEMOCRATIC ECONOMY

I shall conclude by listing a range of proposals that might help to achieve the goal outlined in the above title. Each is an option short of large-scale nationalization. My hope is that these kinds of proposals, if implemented after careful study of their practicability in each case, may be helpful.

First, the kind of anti-monopoly policy suggested by Pillay and Davies may be sensible in some cases. However, we must not reject out of hand the warning of Dr Japie Jacobs (special adviser to the Minister of Finance) in his speech at the Five Freedoms Forum conference on negotiations held in Johannesburg in August 1990:

---

<sup>15</sup> Nicoli Natrass, 'You can't offer paradise unless you can deliver', The Weekly Mail, March 30 1990.

**'It is easy to conduct such an investigation [of barriers to competition posed by conglomerates], but what do you do if you realise that you will be inflicting damage on the economy instead of improving its growth performance if you attempt to break up the conglomerates?'**<sup>16</sup>

**Well, what does one do? This problem cannot be wished away on the basis that conglomerate power is intrinsically dangerous.**

**Second, the government may wish to fund particular kinds of new enterprises, some run on a non-commercial basis (for example, community works programs to upgrade drainage, sewerage, water supply, roads) and others on a commercial basis (for instance, a bank to fund small, potentially viable co-operatives or informal enterprises. The non-commercial ventures should be based on careful evaluation of needs and how effectively available resources would be used; the commercial enterprises which are funded should be evaluated by an actual or potential ability to become genuine economic propositions. The stringent criteria suggested may appear harsh but it must never be forgotten that wasteful use of resources on certain selected projects denies others even the possibility of funding.**

**Third, in specific circumstances, there may be a good case for the state to take partial equity stakes (as suggested by Harris) in important industries. This is an expensive option and should only be used where there is no cheaper alternative. Majority stakes should be avoided; the aim, when equity stakes are purchased, should be to maintain a 'community' presence on boards of particular corporations rather than to take them over.**

**Fourth, as advocated by Pillay, a 'Social Charter' should guarantee all workers. on a non-racial basis, specific rights.**

**Fifth, a system of worker directors might be instituted in larger firms. This would require systematic planning, pilot projects in sympathetic enterprises and adequate training for the selected workers.**

**Sixth, the formal sector will not be able, at least for the foreseeable future, to absorb the vast army of the employed and partly employed. The ANC should aim to encourage grass-roots initiatives of various kinds: these would help to improve living standards and allow the people involved a real, albeit modest increase in the control they exercise over their lives and environment. It is essential that democratization does not just involve central, regional and local governmental institutions. The various levels of government may wish to provide a framework to assist self-help schemes but each should be ready to respond to ideas coming up from the**

---

<sup>16</sup> Japie Jacobs, 'A new economic direction', Business Day, August 28 1990. This is an extract from his speech which I attended.

community levels. Such initiatives will be expensive to fund - although once again a hard-headed approach will be essential to encourage efficient use of resources and the generation, if possible, of self-sustaining income - and this is why South Africa will need dynamic and profitable corporations, whether privately or public or publicly owned, to produce sufficient surplus which can be recycled through the taxation and public expenditure systems.

Seventh, redistribution of income, wealth and opportunities will be necessary. No democratic South African government can adopt the 'leave it to the free market' approach advocated by, for example, the Financial Mail.<sup>17</sup> A commitment to redistribution entails an agreed set of priorities arising from public debate. Priorities should be matched with a profound appreciation of what resources are likely to be available to the government. As I have stated again and again, hard choices will have to be made: not all goals can be pursued simultaneously. Thus, for instance, if we prioritise education we might have to provide less funds to, say, housing or health care. Choices of this nature cannot be avoided.

The above suggestions will allow a democratic government to begin to democratize the economy and the state, will encourage the dismantling of racially based practices and will help us to create a less unequal society. My fear is that Harris's and Davies's papers, by encouraging large-scale nationalization and by going against the drift of international experience of nationalization and planning will lead the ANC and any democratic government into a statist impasse. The result will, most probably, be an over-centralized state and a stagnant economy.

---

<sup>17</sup> See, for example, the editorial 'No Market in Slogans' in the issue of September 7 1990.

## Bibliography

### Unpublished Papers

Robert Davies, Draft of 'Dealing with Monopoly Capital in a Mixed Economy' (February 4 1990)

Laurence Harris, 'The Mixed Economy of a Democratic South Africa' (July 1989)

David Lazar, 'Deregulation and the Internationalization of Financial Markets' (March 1990)

Vella Pillay, 'Post Apartheid South Africa: The Macroeconomic Perspectives for Year One and Beyond', Harare Conference, March-April 1990

Vella Pillay, 'A Comment on Comrade Rob Davies' paper on "Dealing with Monopoly Capital in a Mixed Economy" (December 28 1989)

Vella Pillay, 'Some Problems of a Mixed Economy in South Africa', (October 9 1989)

### Published References

In a few cases, I do not provide full bibliographical data. Unfortunately, I am thousands of miles away from my books, papers and files.

J. Coakley & L. Harris, The City of Capital, Oxford, Basil Blackwell: 1983

Phillip Coggan, The Money Machine: How the City Works (Second Edition), Harmondsworth, Penguin: 1989

Alec Erwin, 'Thoughts on a Planned Economy', Work In Progress, No 61

Financial Mail editorial, 'No Market in Slogans', September 7 1990

Geoff Hodgson, The Democratic Economy, Harmondsworth, Penguin, 19

Japle Jacobs, 'A new economic direction', Business Day, August 28 1990

Nicoli Natrass, 'You can't offer paradise unless you can deliver', Supplement to The Weekly Mail, March 30 1990

Alec Nove, The Economics of Feasible Socialism, London, George Allen & Unwin, 1983

Vella Pillay, 'The Crisis and the Way Out', Supplement to The Weekly Mail, March 30 1990

Raymond Plant, Equality, Markets & the State, London, Fabian Society: 19

Francis Wilson & Mamphele Ramphele, Uprooting Poverty, New York & London, W.W. Norton: 1989