State, Business and Growth in Post-Apartheid South Africa

Nicolí Nattrass & Jeremy Seekings

Discussion Paper Series
Thirty Four
January 2010

IPPG Discussion Papers
available at
www.ippg.org.uk
CONTENTS

1. Introduction and summary  
   1.1 The challenge  
   1.2 The inheritance  
   1.3 The transition  
   1.4 State and business in practice  
   1.5 The other priority: Black economic empowerment  
2. The Historical context of SBRs in South Africa  
3. Understanding State-Business Relations  
4. SBRs, Varieties of Capitalism and the South African Case  
   4.1 The concentrated nature of South Africa’s variety of capitalism  
   4.2 Black economic empowerment  
5. Business organisation and tripartism in South Africa  
   5.1 Historic roots  
   5.2 Business and the transition  
   5.3 Nedlac and SBRs in Post-Apartheid South Africa  
   5.4 The power of business  
   5.5 Corruption  
   5.6 Blurring the lines between business and labour  
6. The Challenge of shared growth today  
   6.1 Policy  
   6.2 Creating jobs in a time of crisis  
7. Conclusion  
References  
Acronyms
1. INTRODUCTION AND SUMMARY

This paper explores the relationship between ‘state-business relations’ (SBRs) and pro-poor growth in South Africa. Part 1 provides a brief outline of the document and then provides a summary of the central narrative about South African SBRs and the lack of pro-poor growth both before and after the democratic transition. Sub-sections 1.1 to 1.5 touch on the growth and distributional challenges faced by the post-apartheid government, the structural inheritance that constrained policy options and the way in which SBRs have worked in practice. The rest of the document provides a more detailed theoretical and empirical discussion of elements of this narrative, but on a more thematic basis.

Part 2 traces the historical background and political-economic context for SBRs in South Africa and concludes by locating the South African case within the broader literature on SBRs. Part 3 provides a more in-depth discussion of the concept of SBRs and various related understandings of the relationship between state and market – notably the idea of forging a development coalition between government and business. We argue that the state-business dyad is more usefully expanded to include organised labour, especially where development coalitions are the most appropriate path to pro-poor growth. Part 4.1 takes the discussion further by considering the varieties of capitalism literature and applying it to South Africa. It touches on corporate concentration (a key characteristic of South African capitalism), recent ‘unbundling’ and continuing forms of anti-competitive behaviour. Part 4.2 concludes with a discussion of black economic empowerment (BEE), which is introducing new forms of concentration, economic power and patronage into the economic system.

Part 5 focuses on the history of business organisation in South Africa, pointing to its fragmented character. It traces the important role of the large corporations in facilitating the democratic transition through engaging directly with anti-apartheid activists and creating a momentum for the development of tripartite institutions for social dialogue at local and national levels. We argue that the National Economic, Development and Labour Council (Nedlac) was a product of this heady transitional period, but failed to live up to its promise as an institutional forum for forging consensual social and economic policies. We suggest that this was because the Congress of South African Trade Unions (Cosatu) was in an alliance with the ruling African National Congress (ANC) and thus could by-pass Nedlac altogether and pursue its labour-market policy objectives directly with the Ministry of Labour.

The relationship between organised labour and government was, however, complicated by the fact that the South African Treasury promoted orthodox fiscal policies without negotiating these with labour or taking them to Nedlac. Thus to an important extent, the Treasury promoted a business-friendly set of policies, whilst the Ministry of Labour promoted pro (organised labour) policies; a policy incoherence which exacerbated the post-apartheid unemployment crisis. Organised business, in turn, had little incentive to engage with the state over its macroeconomic management, and became increasingly sceptical of Nedlac as a forum for dealing with other policy issues. Collective action by business was undermined further by the fact that the established corporations and the emerging ‘empowered’ black business elite could pursue their individual agendas more successfully through direct engagement with government. There is, in other words, a strong tension between the objectives of BEE (racial transformation of ownership through preferential policies) and forging the kind of business unity that is required for a genuine social
accord or tripartite consensus necessary for the emergence of a development coalition.

Part 6 considers the current economic climate and debate over economic policy. We argue that potential still exists for a co-ordinated response by government, business and labour that could potentially create solidaristic and pro-poor growth in this time of global economic recession. However, the possibility of this being forged is remote given Cosatu’s persistent socialist rhetoric and its reluctance to contemplate wage restraint. Until labour, business and the state agree on what needs to be done, and on what sacrifices and deals should be struck, there is little chance of a co-ordinated, egalitarian growth path in South Africa. Part 7 concludes.

1.1 The challenge

When, in 1994, South Africa’s first democratically-elected government assumed office, it was faced with widespread poverty. Whilst income poverty was low by the standards of the rest of Africa, it was much higher than in most other middle-income countries. The persistence of poverty despite economic growth – both before and after 1994 – was due to the highly unequal distribution of the benefits of growth. This inequality was highly racialised, in that apartheid had ensured that white South Africans had skills, opportunities and high incomes, whilst many black South Africans lacked skills, faced few opportunities, and remained in poverty.

Democratisation was accompanied by high hopes that income poverty and inequality would be reduced. The poor were enfranchised, the pro-poor and pro-black ANC was elected into office, the deracialisation of public policies was completed, and even private practices were subject to a degree of deracialisation. The ANC promised ‘a better life for all’ in its 1994 election campaign, and its election manifesto (the Reconstruction and Development Programme, RDP) promised that ‘attacking poverty and deprivation’ would be ‘the first priority of the democratic government’. Socio-economic rights were also included in the 1996 constitution.

The outcome after fifteen years of democratic government has been disappointing. The reduction of poverty in South Africa requires sustained growth and a more pro-poor growth path. The South African economy grew steadily from 1992 to 2008 (with the exception of only one year, 1998), but at a much slower rate than South or East Asia. The benefits were distributed unequally, such that income inequality actually worsened, whilst income poverty in 2008 was little better than in 1994. Poverty in South Africa is rooted in a combination of very high unemployment (at about one-third of the labour force), together with landlessness and the decline of subsistence agriculture. Poverty is mitigated through a highly redistributive welfare system, but any further reduction in poverty requires reducing unemployment among the currently unskilled. This in turn requires some combination of enhancing skills, on the one hand, and expanding the demand for unskilled labour, on the other.

The overall political context has, in important ways, been conducive to such cooperation. ANC-led governments since 1994 have maintained a commitment to a mixed economy, i.e. to a broadly capitalist economy in which the state is an active economic player through market regulation, selective ownership, and a range of strategic industrial and educational interventions. But state-business relations have not been characterised by the kind of sustained, mutually beneficial engagement that characterise effective growth or development coalitions in cases such as Mauritius.
1.2 The Inheritance

Apartheid produced an almost entirely white business elite. This elite was highly concentrated in terms of corporate ownership and control. In 1994, the giant, mining-based Anglo American controlled 44% of the entire capitalisation of the Johannesburg Stock Exchange, whilst the top five corporate groups together controlled 84%. This led Schneider, in his analysis of ‘varieties of capitalism’ in the developing world, to categorise South Africa as a ‘hierarchical market economy’: key co-ordination problems for business are solved through vertical relations within large conglomerates or hierarchical relationships between firms rather than through either the market or corporatist institutions. Whilst suggestive, this interpretation of South Africa neglects the major roles played by the state. The apartheid state shaped the business environment directly through parastatals in (especially) rail and air transport, iron and steel, electricity, and telecommunications, and continues to do so today, albeit on a smaller scale. Similarly, the apartheid state used its considerable powers of regulation to promote Afrikaner capital, to protect the living standards of white voters, and to promote domestic industry. Industrial policy remains a major form of government intervention and through BEE policies, continues to influence ownership and income distribution. Both during and after apartheid, government policies provided strong incentives to capital to employ more capital - and skill - intensive production technologies – thereby contributing to South Africa’s ongoing structural unemployment crisis.

Indeed, the character of SBRs in South Africa is underpinned by the coexistence of an economically interventionist state and powerful corporate capital. The state enjoys considerable political autonomy from capital, but remains dependent on capital for continued economic growth. The outcome, for a century, was often tense relationships, as the state sought to push and bully capital into subordinate cooperation, whilst avoiding genuine deliberation, and being careful not to undermine the very economic foundations of white prosperity. Capital, for its part, divided between older, established factions and newer, dependent ones. The former adopted a largely reactive approach to the state, operating within constraints, without trying to challenge those constraints. The latter were required to be more subservient, as long as they were dependent on state patronage.

1.3 The Transition

Modest deracialisation in the last years of apartheid did not extend into the senior echelons of business. The ownership and control of South African business remained solidly white, although (by the 1980s) comprising both Afrikaans and English capital. Faced with intensifying political, as well as industrial unrest, and unimpressed by the National Party’s failure to implement meaningful reforms, South African capital made important overtures to the ANC in exile. Business was to play an important role in a series of episodes during the transition to democracy, leading to a brief enthusiasm from all sides for corporatist institutions that brought capital, labour and the state together.

The progressive face of business was the Consultative Business Forum (CBM), formed in 1988 for business leaders to work with pro-democratic popular organisations inside the country (and the ANC in exile). The CBM helped to broker a peace accord between the National Party government and the ANC opposition. At the same time, business and labour sought to institutionalise corporatist
arrangements for the negotiation of industrial relations. The 1990 ‘Laboria Minute’ between capital and labour led to the formation in 1992 of a National Economic Forum (NEF), bringing state, business and labour together. After the 1994 elections the new ANC-led government, enthused with the perceived success of the CBM and NEF, established Nedlac, supposedly to facilitate consensual economic and social policy reform.

Many ANC leaders also began to appreciate the weaknesses of the state and the necessity of working with business. The ANC shifted its economic policies in a more business-friendly direction. At the same time, however, many ANC leaders also viewed business as having been deeply complicit in apartheid, i.e. that it was in need of ‘transformation’.

1.4 State and Business in Practice

At the formal level, business in post-apartheid South Africa appears well-organised, and there exist formal institutions for both bilateral discussions between business and government and corporatist discussions for trilateral discussions between these and labour. In practice, however, all of these formal institutions operate unevenly, at best; they also tend to represent big business (now, black as well as white) rather than small business. Established business has had good informal relationships with some parts of the state (such as the National Treasury), but relations with other parts of the state (including, for a long period, the presidency) were strained. Although the post-apartheid South African state is committed to a mixed economy and has pursued a range of business-friendly policies, neither formal nor informal relations between state and established business have been strong.

Business organisation in South Africa has long been divided, especially by relationship with the state, with separate organisations for pro-National Party, mostly Afrikaans business, more critical ‘English’ business, and black business. In 1994, Business South Africa (BSA) was formed to represent South African business internationally, and subsequently in Nedlac. Within a year, a major black business organisation (Nafcoc) had split from BSA. Not until 2003 was a new umbrella body (Business Unity South Africa, BUSA) formed. BUSA has 45 member organisations ranging from regional and national chambers of commerce, to specific economic sectors (e.g. minerals, agriculture, finance, tourism, building, etc) and professional interest groups (e.g. women, black professionals) and employers associations (such as the Chamber of Mines). The structure of BUSA means that the interests of big business continue to predominate.

Nedlac was the principal formal mechanism for cooperation between state and business – and, tellingly, labour. Nedlac’s first major concern was the rewriting of labour legislation, which reflected the strength of organised labour, backed by the government Department of Labour, and the weakness at the time of white business. Faced with the strength of labour in Nedlac, the government increasingly ignored Nedlac, most infamously in introducing in 1996 its Growth, Employment and Redistribution (GEAR) macro-economic strategy. GEAR entailed a programme of structural adjustment including increased labour-market flexibility, in contradiction to the new labour legislation. The tensions in government economic strategy and policy were not discussed in Nedlac, primarily because of the strong (and successful) opposition to any deregulation from organised labour.
Informal relationships are of crucial importance in SBRs. Nelson Mandela, both before and after his election as president in 1994, cultivated close relationships with top local businessmen, and met regularly with leading businessmen in the ‘Brenthurst Group’ (named after Harry Oppenheimer’s house where meetings were held).

Thabo Mbeki had very different relations with established (white) business. He appears to have been suspicious of what he suspected to be continued racist attitudes to black leadership and believed that business was not responding to the government’s business friendly policies. The white corporate elite only succeeded in partially restoring communications when it contributed over R1 billion to a new Business Trust, headed by a (black) ANC leader and businessman. Mbeki established bilateral ‘working groups’ with favoured local and international businessmen. On key policy issues, however, deliberation appears more cosmetic than substantial, and (tellingly) has occurred outside of Nedlac. The government convened a Jobs Summit in 1998, and a Growth and Development Summit in 2003. In neither case was there any significant discussion of how to transform the growth path in a pro-poor direction, and neither summit led to significant policy reforms.

1.5 The Other Priority: Black Economic Empowerment

Perhaps the most important sphere of interaction between state and business in the short-term has been the state’s efforts to compel business to cooperate in the transfer of large shares of ownership and control to a new, black corporate elite. The close links between black political and economic elites comprise an example of an informal SBR contrast with the often strained links between key political leaders and the established, white economic elites.

The government made only modest efforts to promote black business in the mid-1990s, but in the early 2000s acted aggressively. The government first legislated a ‘preferential procurement framework’ which required that the public sector tendering process discriminate in favour of black-owned companies. Many major government contracts have been awarded to BEE consortia. In 2003, further legislation required that existing companies in every economic sector participate in the formulation of ‘charters’ specifying targets in terms of the transfer of ownership and control. The mining industry was subject to dedicated legislation, requiring that mining companies achieved 15% black ownership by 2009 and 26% by 2014 in order to retain their mining rights. Subsequently, sectoral charters and supplementary ‘codes of good practice’ also require that private firms themselves procure goods and services from black-owned or controlled firms. In other words, for a bank (for example) to be BEE-compliant it must demonstrate not only that it is part-owned by black shareholders and has black directors and senior managers, but also that it itself procures supplies (for example, IT services) from black-owned firms. The state thus combines its power as a massive spender with its power as a regulator to make private firms complicit in the implementation of its BEE strategy. Having BEE partners is presumed to improve access to the political elite, reducing the disadvantages experienced by established firms (even if BEE-compliant) relative to black-owned companies. The costs of transferring ownership entail an expensive form of insurance against political risk.

This resulted in massive ‘BEE deals’, in which consortia of (mostly) black investors bought discounted minority stakes in established firms, typically financed through a
A combination of bank loans, dividend flows and capital appreciation in the shares of the company involved. The value of BEE deals surged from 2003. By the end of 2006, BEE deals had transferred ownership of between 6 and 10% of the Johannesburg Stock/Securities Exchange (JSE) and between 2006 and 2008, the total number of directorships in JSE-listed companies held by black people rose by 47%. Some black businessmen and women have amassed extraordinary wealth very rapidly.

BEE deals are not the only source of changes in ownership of the JSE. The share owned by pension and provident funds – many of which are linked to trade unions and invest the pensions of their black members – has also risen steadily, to about 15% of the JSE by the end of 2006. Overall, black ownership therefore amounts to not less than one-fifth and not more than one-quarter of the JSE. Given that one-third of the JSE is owned by foreign investors, black ownership probably amounts to about one half of the total owned by white South Africans. This is an extraordinary shift in ownership over a period of little more than ten years.

Many members of the new black corporate elite are very well connected politically, to the extent that the ANC itself has had to respond to criticisms of the ‘revolving door’ between political or bureaucratic leadership and the corporate world. Prominent national and provincial ANC leaders followed Secretary-General Cyril Ramaphosa’s lead into business. Other prominent businesspeople have close connections to the ANC. Many senior bureaucrats, including officials running regulatory agencies, also join BEE consortia very soon after leaving public service, sometimes even in the very sectors that they were previously responsible for regulating. ANC leaders and senior bureaucrats alike know that they can acquire great wealth through BEE deals, and move in the same social world as their predecessors who have already done so. The result is an unabashed ideology that holds, that the promotion of a black business elite is both just and good for South Africa. The ANC has become, in part, the party of black business.

The underside of the close relationship between political and economic elites is the tawdry story of corruption, as revealed in case after case of abuse in tender processes, most notoriously for a massive arms deal. Jacob Zuma, at the time deputy-president and (from 2009) president, was implicated in corruption, for which his advisor was jailed although charges against Zuma himself were dropped.

2 THE HISTORICAL CONTEXT OF SBRs IN SOUTH AFRICA

SBRs in South Africa were, and continue to be, shaped by racial policies: during apartheid, white business (especially Afrikaans business) was promoted at the cost of black business[1]; and in the post-apartheid era affirmative action and BEE policies are benefitting a new black elite. But SBRs have, and continue to be, shaped by sectoral interests as well. Most notably, apartheid labour policies benefitted agriculture and mining by protecting their supplies of cheap African labour whilst undermining growth in manufacturing.

[1] The adjectives ‘white’, ‘black’, ‘English’ and ‘Afrikaans’ are routinely applied to both capital and labour in South Africa, reflecting the deep entrenchment of racial discourse. ‘White capital’ means capital owned and/or managed by ‘white’ people, i.e. people classified as white under South Africa’s racial legislation and/or viewed as white by other South Africans. Over time, capital has become less and less accurately classified as mono-racial.
The industrial bargaining system, in which the larger companies and white trade unions set wages across entire industries, also contributed to relatively high wage costs and was one of the reasons why the state, from the 1920s onwards, provided tariff protection for industry. But such measures could not adequately compensate all business for the inefficiencies of racial discrimination. As the apartheid economy slowed down and then descended into crisis in the 1980s (see Figure 1), business in all sectors slowly united in favour of change (discussed more in Section 5 below).

![Figure 1. Economic Growth in South Africa: 1948-2007](image)

Source: South African Reserve Bank

This shift is most dramatically evident with regard to mining. The Chamber of Mines (COM) actually drafted the pass laws that were introduced in the old Transvaal Republic in 1895 (van der Horst, 1942: 133). The COM also supported the 1913 Land Act (which restricted black ownership to 13% of the land), saying that it would ensure that ‘the surplus of young men, instead of squatting on the land in idleness, earn their living by working for a wage’ (quoted in Lipton, 1986: 119-120). The state, both pre-war and under apartheid, in turn supported the COM in its monopsonistic recruitment of labour throughout Southern Africa, by making absconding from mining contracts illegal, and by brutally suppressing African trade unions. Even so, the mining industry consistently railed against the job colour bar which restricted skilled jobs for white workers, thereby driving up skilled wages and reducing the room for wage increases for African workers.\(^2\) It was only in the early 1970s, that the economics of gold mining were sufficiently transformed by technological change, industrial action and the sharp increase in the gold price, that sustained wage growth for all workers became possible.

\(^2\) As far back as 1893, the COM opposed the introduction of the job colour bar in the old Transvaal Republic – arguing that the test for miners should be based on competence, not colour (Lipton, 1986: 112). Conflict with the Republic over this and other matters escalated to such an extent that the COM President supported the armed (‘Jameson Raid’) uprising of 1895 – receiving a death sentence (later commuted to a life sentence and then to a stiff fine) for his role (Lang, 1986). It took almost a century before the job colour bar was finally removed from the mining industry in 1986.
Unfortunately, by the mid 1970s, high and rising unemployment had become a permanent economic feature of the South African economy. This was driven by the joint effects of the destruction of the African peasantry (through forced removals, racist legislation and the rise of capitalism in agriculture (Morris 1976; Bundy 1979)) and rising capital-intensity – attributable in part to government subsidies on capital and racial restrictions on labour (Seekings and Nattrass, 2005). Even the mines shifted to a higher wage, lower employment outcome from the late 1970s onwards as they attempted to 'stabilise' their workforce by employing a smaller pool of better-paid, more highly skilled workers. This essentially 'shut out a whole generation of new work-seekers who could once have counted on a mine job, if nothing else' (Crush 1995: 25). The further collapse of employment in the 1980s meant that at the dawn of democracy in 1994, more than one-third of the African labour force indicated that they wanted work but could not find it (Seekings and Nattrass, 2005: 165-87).

The economic structural transformation towards persistent, large-scale, open unemployment exposed a key institutional weakness in the South African welfare system: its failure to provide income support for the unemployed. Under apartheid, labour-market and welfare systems were synergistic in so far as white workers were concerned: the government guaranteed jobs (through the colour bar and the like); the industrial council bargaining system kept upward pressure on their wages; and the government provided welfare to those too sick or too old to work. This institutional design, which was premised on full-employment for whites, was gradually deracialised as the gap between white and black pension values narrowed and as black trade unions gained access to the industrial bargaining system. Labour-market reforms which legalised black trade unions and opened the machinery of industrial bargaining to all workers in the 1980s thus continued to protect the wages of insiders, now defined as all workers, rather than just white workers. Wages set in industrial councils (subsequently renamed bargaining councils) by the larger firms and trade unions, and extended by government decree across the entire industry continued to serve its original function of limiting the expansion of lower-wage, lower productivity employment (Moll, 1996). Ironically, the cost of deracialising rather than transforming the old industrial bargaining system was that it exacerbated unemployment at a time when the government was unable to provide protected employment to the growing ranks of the unemployed and in a context where the welfare system remained premised on full-employment (Seekings and Nattrass, 2005).

Various attempts by the post-apartheid government were made to improve 'training' and skills development – notably the creation of industrial-level Sector Education and Training Authorities (SETAs) – but these are widely recognised to be ineffective (Competitions Commission, 2008). Not only have the requisite skills not been created, but the major constraint – the supply of jobs for relatively unskilled people – remains binding. Thus, despite the end of racial discrimination against black people and ongoing redistribution to poor people through the means-tested non contributory pension system, disability and child support grants, inequality has risen in post-apartheid South Africa – predominantly as a result of unemployment.³ Class

³ Data from a variety of sources show that inequality in the distribution of income has not declined since the end of apartheid, and may even have worsened. Moreover, intra-racial inequality has continued to grow relative to inter-racial inequality (Seekings et al., 2004; Leibbrandt et al., 2004: 9; Van der Berg et al. 2006; Seekings, 2007; Leibbrandt et al., 2008).
differentiation within the African population has deepened further, with the growing African middle class and elite living in a largely different world to the unemployed underclass.

A key implication of this is that the possibilities for SBRs to promote genuinely pro-poor, i.e. labour-intensive, growth are constrained by inherited economic institutions. Trade union organisers have an incentive to keep the industrial bargaining system as it allows them to set industry-wide wages by organising in the larger firms which are also more likely to buy into high-wage, high-productivity deals. Big business also has an incentive to participate in the system as it serves to eliminate competition from lower-wage, more labour-intensive enterprises. The interests of the unemployed thus have to be represented by the government – but the extent to which this is possible depends on the relationship between the state and organised labour as well as the character of SBRs.

![Figure 2: Investment in South Africa in Comparative Perspective](http://ifs.apdl.net/imf)

**Source:** International Financial Statistics from the International Monetary Fund, World Bank Development Indicators (http://devdata.worldbank.org), and the ILO’s Laborsta

The post-apartheid government has attempted to alter the growth path, but with limited success. Economic growth, having been weak and erratic in the 1980s, improved after the democratic transition but remained disappointing. In the decade after 1994, South Africa’s GDP _per capita_ growth of 1.2 percent per annum was comparable to Sub-Saharan Africa (1.1 percent per annum) and Latin America (0.8 percent per annum) but substantially below that of East Asia (6.2 percent per annum) and South Asia (3.7 percent per annum) (Rodrik, 2008: 770). As can be seen in Figure 2, South Africa continued to perform poorly relative to most countries at a similar level of development, with regard to growth, investment and unemployment. Even after the longest upswing in South African history (1999 –
2008) the unemployment rate remains stubbornly high with over a quarter of the labour force without work.\(^4\)

Post-apartheid economic planners had hoped to base growth on a strong export sector. However, exchange rate instability, skilled labour shortages, high unit labour costs and structural rigidities contributed a shrinkage of non-mineral exports rather than the hoped for expansion (Rodrik, 2008; Hausmann, 2008; Hausmann and Klinger, 2008, Edwards and Alves, 2006). South Africa thus ran a persistent balance of payments deficits as import demand outstripped exports. While this replicated an old pattern in the South African growth path (Figure 3), what differentiated the post-apartheid period was the reliance on increasingly erratic flows of foreign savings (notably portfolio investment) to finance the current account deficit. This left the country increasingly vulnerable to destabilising reversals in capital flows. Part of the problem was structural (Banerjee \textit{et al}, 2008: 724), notably the continuation of the long-term decline of the mining industry as mineral reserves grew scarcer and more difficult to mine. However, poorly co-ordinated economic policies were also an important part of the story.

The key co-ordination failure was between the government’s fiscal policy, which from the mid 1990s into the 2000s sought to reduce the deficit and the debt bequeathed to it by the transitional regime, and its protective labour-market policies. The Labour Ministry pursued policies which raised the costs of employing labour at the same time as fiscal policy drained demand out of the economy and the Department of

\(^4\) According to the official definition of unemployment (which counts people as unemployed only if they are actively looking for work), the unemployment rate in the third quarter of 2008 was 23.2%. If you include the discouraged work-seekers (those who want work but have given up looking) then the unemployment rate rises to 29.2% (Quarterly Labour Force Survey. Available at: \url{http://www.statssa.gov.za/publications/P0211/P02113rdQuarter2008.pdf})
Trade and Industry (DTI) implemented trade liberalisation. As was the case in other countries attempting such structural adjustment under rigid labour market conditions (OECD, 1999: 156-9), the results were costly in terms of employment, especially of unskilled labour.

As can be seen in Figure 4, manufacturing employment fell as average wages rose throughout the 1990s and into the early 2000s. Note that labour productivity also rose sharply, in fact, so rapidly that it exceeded the rate of growth of wages, thereby enabling the profit share to rise. The ‘winners’ were thus the employers who remained in business (experiencing a rising profit share), and those workers who kept their jobs. Some of these workers, notably the most skilled enjoyed substantial wage increases – but for the most part, average real wages rose in manufacturing because unskilled low-wage jobs were shed. The ‘losers’ were those (predominantly unskilled) who lost jobs, or who may have obtained jobs if a more labour-demanding economic strategy had been pursued.

Many factors contributed to the shedding of unskilled labour. These included the impact of new labour legislation which raised the cost of employing labour and the continued operation of the industrial bargaining system which set wage floors (binding predominantly on unskilled labour) – all of which provided strong incentives to firms to substitute machinery for workers and to have a smaller, better skilled, better paid and more manageable workforce.

Other policies, notably industrial policy with its focus on recapitalisation (to allow for ‘best practice’ techniques to be introduced) contributed further to rising capital-intensity (Kaplan, 2003; 2007). Although the post-apartheid economic planners had

---

5 Tariffs in manufacturing were reduced sharply from 23% in 1994 to 8.6% in 2004 and import penetration (the percentage of exports in GDP) rose from 16% to 26% between 1990 and 2006 (Edwards, 2005; Edwards and Alves, 2006).
hoped that recapitalisation would provide a strong basis for growth – thereby expanding employment opportunities in the future, industrial policy proved disappointing. As Kaplan (2007: 98-9) points out, industrial policy was never consolidated under one arm of the state, but remained scattered and even ‘hidden’ – such as support for arms production, minerals processing, and subsidised infrastructure and energy to so-called ‘development zones’. Industrial policy was also bedevilled by having to address too many strategic concerns including regional development, small business development, racial transformation in hiring, skills development, moving up the value chain, promoting labour-intensive growth and BEE. The result was that industrial policy as a whole became less well targeted and effective. Attempts to create structured forms of engagement with the business (including national investment summits and regional forums as part of the spatial development initiative) failed to build the necessary trust and information flows required for effective industrial policy.

Tight monetary policy probably also undermined the potential for employment creation during the post-apartheid period (Kantor, 2004)\(^6\) – but this was in large part externally driven. As can be seen in Figure 5, South Africa’s inflation rate tracks movements in the nominal value of the Rand: when the dollar price of the Rand falls, domestic inflation rises. As the interest rate is the key weapon in the armoury of the Reserve Bank (whose job since 2000 has been to keep inflation within a target band of 3-6%), interest rates tend to rise when the Rand depreciates.

In 2006, the ANC released a ‘new’ economic strategy in 2006: the ‘Accelerated and Shared Growth Initiative for South Africa (ASGISA) promising to halve poverty and unemployment rates through increasing growth to a high of 6 percent p.a. (which was unrealistic even at that time) and supposedly absorbing more labour into the ‘mainstream economy’. Key elements of the plan included increased public investment in infrastructure, accelerated skill development, and reducing the regulatory burden on small and medium-sized businesses.\(^7\) However, it proposed very little new and the bias in favour of high-wage, high productivity growth remained evident. In short, institutional innovation (notably deracialising the old industrial council system) and post-apartheid economic policy has been unable to prevent (and may even have encouraged) the reproduction of old apartheid political-economic patterns – notably with regard to limited employment growth. The recent global recession of 2008/9 (see Part 6) has exacerbated the problem.

---

\(^6\) The benefits of this ‘inflation targeting’ for growth are unclear. On the one hand it assists export competitiveness (by fighting inflation thereby keeping the cost of domestic inputs down and ensuring that a nominal depreciation is a real depreciation) and can potentially boost investment by making monetary policy more transparent and ‘credible’ in the eyes of investors (Aron and Meulbauer, 2005). However, higher interest rates also raise the cost of borrowing for government and private firms alike and paradoxically, this can generate further uncertainty, thereby eroding rather than boosting investment. South Africa’s inflation targeting policy – at least on paper – allows for some flexibility in times of crisis in order to protect the real economy, but for the most part, Reserve Bank Governor Tito Mboweni has chosen to prioritise controlling inflation in the 2000s.

This is the political-economic context within which SBRs operate today, and which constrain the potential for SBRs to forge pro-poor outcomes with labour and the state. As argued below, the character of business has shifted in the post-apartheid period, notably through the process of corporate unbundling and the rise of BEE. This has resulted in the rise of a new business class which, like organised labour, is dependent on state support to protect its interests. We argue below that both organised labour and big business face incentives to negotiate directly with the state rather than participate in a tripartite social accord which could benefit outsiders (the unemployed) as well as insiders.

However, before delving into this argument, it is useful to discuss the notion of SBRs and its potential to support or undermine pro-poor growth. The discussion below concludes our introductory section by locating the discussion of South African SBRs in the wider development literature on growth, government policy and business.

3 UNDERSTANDING STATE-BUSINESS RELATIONS

SBRs occur at multiple levels from formal ‘peak-level’ engagement between government and business associations to more local and informal interactions between individual businesses and government officials. Given that markets are socially constructed and hence always to some extent regulated by governments, SBRs are ubiquitous and inevitable in capitalist economies. State and business exist in a symbiotic relationship, the challenge being to create a production and distribution system that is acceptable to the broader polity and which incentivises business to invest. As Moore and Schmitz put it: ‘Politics and Business need one another. Business needs the support of government to make profits; governments and politicians need to share in these profits to finance government and politics’ (2008: 11). They point out that these mutual needs can be reconciled successfully either through formal ‘arms-length’ institutional configurations, or through a range of
flexible formal and informal 'hand-in-hand' relationships which do not necessarily 'meet the highest standards of fairness, transparency or legality' but which nevertheless do not deteriorate into 'crony capitalism' either (ibid: 11-12).

Neoclassical economists, of course, are inherently suspicious of SBRs precisely because they provide firms with opportunities for rent-seeking, and bureaucrats with opportunities for inefficient (if not corrupt) meddling. The orthodox neoclassical approach assumes that price signals are more efficient than other information flows and that growth is best fostered when capitalists are exposed to the cold winds of competition and where government intervention is limited to providing a business-friendly environment by upholding the rule of law, protecting property rights and providing public goods. However, this abstract model largely ignores the socio-political character of markets and the historical dynamics that shape the opportunity structure facing business.

Understanding the nature of specific SBRs is best done on a case by case basis, paying attention to history and the complex interplay between growth and government intervention. But it is important to bear in mind that this only establishes that SBRs were consistent with economic growth. It does not establish whether this was the best or only way of achieving such growth, or interrogate the extent to which business benefitted from, or was harmed by, government policy. One loses a great deal of analytical traction by simply assuming that the coexistence of SBRs and economic growth implies a functional relationship between the two.

The early 'radical' analysis of South African capitalism under apartheid assumed that a functional relationship between business and the state must have existed on the grounds that rapid capital accumulation could only have taken place if conditions were favourable to business. Such analyses, however, pay insufficient attention to the negative impact of apartheid policies (notably skilled labour shortages and higher white wages) and fail to distinguish between the interests of individual capitalists and that of the broader capitalist system. This, for example, is evident in the analysis by the South African Truth and Reconciliation Commission (TRC). Despite distinguishing between three different levels of business involvement in apartheid, i.e. direct involvement in the formulation of oppressive policies (e.g. mining industry), facilitating oppression (e.g. armaments industry) and merely benefiting from operating in a racialised environment, the TRC nevertheless held business collectively responsible on the grounds that business was 'central to the economy that sustained the South African state during the apartheid years' (TRC, 1998: 58).

In so doing, the TRC failed to hold the more morally culpable businesses to account for specific acts – such as co-operating with the security police, or providing armaments to the police and army – and treated relatively politically and economically powerless businesses (e.g. small and medium enterprises) the same way as the more potentially influential corporations (Nattrass, 1999: 390).

The concentrated nature of South African capital meant that some business leaders inevitably carried more clout than others and the more interesting investigation would have been to probe if they could have done more to oppose apartheid. Even so, the fact that the established white business elite did assist in the transition to democracy (as discussed in Section 5) suggests the need for a more nuanced approach to the power of business. Big business has been influential in different ways, in different times. More recently, we have witnessed a change in the

---

8 See Nattrass (1991) for an overview of the debate over the nature of capitalism under apartheid.
relationship between the old established corporations and the state (which was more convivial under Mandela than Mbeki who was more exercised by concerns about race) and the growth of a new black bourgeoisie. Crude functionalist analyses of ‘business’ and ‘the state’ are too blunt to be useful in this context and it is more helpful to frame questions about incentive structures and the potentially corrosive impact of corrupt and collusive behaviour. Such questions, as well as more normative assessments of whether and why more developmental or pro-poor paths were not taken, are necessary component of any critical (as opposed to functionalist) approach to SBRs.

The old ‘development economics’ school of the 1960s and 1970s assumed the need for a major role for government in driving development, conceptualising the state (rather naively as it turned out) as an ‘enlightened planner’ especially in the early stages of development, when mobilising savings and investment and providing strategic protection to infant industries was deemed to be crucial. Although development planning delivered growth, notably in India and Brazil (Griffin, 1989), the inefficiencies and cronyism that dogged import-substituting industrialisation (ISI) in Latin America, prompted a more critical exploration of the relationship between government and business. By the late 1980s, political economists were taking very seriously the problem of state ‘capture’ by business interests and concluded that the East Asian ‘developmental state’ model was superior to the Latin American model in part because it was more ‘insulated’ from private sector interests (e.g. Haggard, 1990) and was able to ‘discipline’ capital by linking continued targeted state support to clear performance criteria (Amsden, 1989; Wade, 1990). Evans took the argument further by showing that the East Asian states of Taiwan, Korea and Japan were successful not because of ‘insulation’ from private sector interests, but because of their ‘embedded autonomy’ – i.e. bureaucrats were sufficiently well networked with business that they understood the needs and challenges facing the private sector, yet sufficiently autonomous by virtue of being part of a meritocratic public sector paying competitive salaries that they could avoid ‘capture’ by particular interests (Evans, 1995; Evans and Rauch, 1999). The policy message of this analysis – and indeed of the subsequent literature on SBRs – is that some institutional configurations linking business and government work better than others and that the challenge is not to delink government and business (as the neoliberal orthodoxy would prefer) but rather to shape it in ways that are conducive to the formation of ‘coalitions’ or ‘collaborations’ between political and economic elites that promote investment and economic growth.

According to Harriss (2006) ‘benign collaboration’ between business and government elites is possible where there is transparency (regarding information flows), reciprocity (i.e. support conditional on performance), credibility and trust – the implication being that this could be fostered by a range of different processes and institutions (both formal and informal) rather than by any one ideal ‘model’. Like Evans (1995), Lucas (1977) and Handley (2008), Harriss stresses the importance of a meritocratic and capable public service, but pays more attention to the organisation of private capital (the more ‘encompassing’ the business organisations, the better) and for the development of shared goals and understandings on the part of business and government elites.

The idea of fostering SBRs as structured forms of engagement with business organisations makes sense (and worked for a long time in Sweden during the heyday of social democracy). But it is not obvious why individual businesses would voluntarily submit to collective representation – especially where they stand to
benefit individually from rent-seeking and corruption, or where they have sufficient power and prestige as individual capitalists to gain the attention of government. As Lindblom (1977) argued in his classic analysis, the incentives for individual capitalists to engage in collective action are thus not strong. Similarly, Offe (1985) argued that the need for collective action by capitalists is limited because their ‘structural power’ is guaranteed by capitalism itself. This implies that collective action by business is inherently unstable, and requires active support from government itself to create the conditions and institutions in which SBRs are managed primarily through peak-level organisation. Thus government support for peak-level negotiating forums (involving business, government and labour) in which economically meaningful decisions are made can help tip the balance in favour of more co-ordinated and developmental forms of capitalism.9

However, the persistent and growing power of capital needs acknowledging. Widespread trade liberalisation from the 1990s onwards has made it increasingly difficult for governments to provide the kinds of targeted incentives and support that the early ‘Asian tigers’ gave to industry; and increased openness in capital markets made it easier for capital to employ the ‘exit’ option when faced with what it perceived to be an unfriendly domestic economic environment. Recent work on the potentially constructive role for SBRs in development thus highlights the need for private sector ‘consent’ and for government to facilitate the formation of growth coalitions based on trust, credible information flows and informed policy (e.g. Doner, 1992; Bräutigam, Rakner and Taylor, 2002, Handley, 2008). The potential economic functions of constructive SBRs are seen as including: technological development (i.e. harnessing externalities of innovation and diffusion); skill formation (addressing under investment at industry level due to concerns about poaching; inadequate information about what training is required etc); and overcoming macro co-ordination failures which could result in the economy becoming stuck in a low-skill, low-growth equilibrium (Te Velde, 2008). But, as Handley points out in the case of SBRs in Africa, such outcomes require high levels of capacity in the state and business communities ‘to engage in a robust and sustained set of exchanges concerning policy’ (2008: 2). She points out that in Zambia and Ghana, where both sides were weak, SBRs degenerated into neo-patrimonial collusion – whereas in the case of South Africa and Mauritius (both with strong states and an organised and capable business sector), SBRs were characterised by ‘constructive contestation’ (ibid).

Close and constructive relations between government and business are necessary to enhance information flows, but the potential for corruption hangs like a sword of Damacles over the entire process. As Granovetter has pointed out, embeddedness can be positive, where developmental states generate trust, or they can be negative where neo-patrimonial relationships encourage malfeasance (1985: 498). While it is possible for a particular country to achieve the necessary competent and trusting forms of embedded-autonomy necessary to underpin a solidaristic growth coalition, this outcome is path-dependent, contingent and unstable. Trust, after all, has both negative and positive implications. As a recent report from the South African Competition Commission observes, ‘information and trust are two of the most important requirements of collusion’ (2008: 22).

---

There is probably an inevitable tension between promoting growth through competition, and achieving competitive advantage through SBRs based on information sharing, trust and reciprocity. Where this can be done transparently, and through business organisations, the risks of corruption and neo-patrimonialism are reduced. But as soon as informal, behind-closed-doors deals with individual business people start to characterise SBRs, the dangers of corrosive corruption loom large.

In his empirical analysis of SBRs, Te Velde (2008) develops an indicator of ‘good SBRs’ comprising: an index of two dummy variables (whether a private sector umbrella organisation exists, whether the public sector has an investment promotion agency); a measure of anti-collusive behaviour (0 for no competition policy, 1 for an effective competition policy and 0.5 for an ineffective competition policy); and a measure of institutionalised public-private dialogues (0 for no meetings, 1 for one meeting, 2 for 2 or more meetings). He finds that this measure of SBRs has a positive and significant coefficient in a dynamic growth regression (Sen and te Velde, 2008) – although the coefficient is small, and it is unclear whether the SBR measure is in fact picking up ‘good state business relations’ or whether it is proxying for missing variables in his analysis like human capital, economic infrastructure, degree of industrialisation etc. Furthermore, it is not obvious why a competitions policy is necessarily a marker of ‘good’ (at least in the sense of efficient) SBRs. As Williamson (1985) and the varieties of capitalism school has shown (see below), forming ‘hierarchies’ through vertical integration and the creation of large corporations is one way of limiting transactions costs and overcoming certain coordination problems. Also, large conglomerates may be better placed than smaller firms to compete internationally, to grow market share and innovate thereby creating the necessary foreign exchange other firms need to grow. A competition policy which adopts a blunt approach to preventing concentration may thus undermine, rather than promote growth in some instances.

Another difficulty with empirical measures of SBRs is that they are, inevitably, biased towards formalised institutional arrangements. Less easily measured are the informal relationships between ‘those who hold political power and those who decide on investment’ (Moore and Schmitz, 2008: 3) which matter a great deal in developing country situations where formal institutions are weak. Furthermore, what determines whether a particular SBR is ‘good’ inevitably depends on the particular context and on what co-ordination failures (or crisis in the general business environment) that the SBRs are attempting to address.

Implicit in the kind of ‘economic functions’ approach adopted by Te Velde et al is a somewhat narrow vision in which the state assists business in specific industries to become more competitive by supporting productivity growth (e.g. technological development, training etc); generally assisting specific sectors to break into international markets (through providing information, networking support etc) and facilitating sustained investment through the building of trust and credibility. But what if the growth problem is of a different nature – for example, distributional conflict between labour and capital resulting in wage-price spirals, slower investment and employment losses? This was, after all, the classic economic problem confronting European economies during the long post-war boom (Glyn, 2006). There is no reason why these problems should not arise in developing countries, especially those with an emerging labour movement. The classic developmental state response, in which the state rewards business for compliance with industrial policy instruments wielded by a powerful state agency whilst explicitly excluding labour, if not actually oppressing its ability to drive up wages, (Johnson, 1982), is not up to managing this
problem. More specifically, in cases where unions are politically and or economically strong – as is the case in post-apartheid South Africa – a variant of corporatism/social democracy which ensures that wages and other business costs are managed in such a way to deliver investment and sustainable earnings growth may be an appropriate alternative institutional arrangement for promoting investment and pro-poor growth. In other words, the necessary growth coalition is one which includes labour and not only organised business and the state.

For example, in Mauritius during the 1970s and 1980s, tripartite agreements between business, labour and government on wage restraint and monetary policy enabled the country 'to adjust more rapidly than other African countries to external shocks and high levels of debt while keeping coalitions together through judicious use of side payments to the most vocal losers' (Bräutigam, 1997: 56). Whilst not a strongly corporatist system, nevertheless the system of compulsory arbitration of wages (from 1973), the building of trust between the socialist prime minister and business through 'symbolic public gestures as signals of commitment to cooperation' and 'the construction of dense clusters of consultation between business (united in one peak association) and government resulted in a co-ordinated form of capitalism which delivered both sustained investment and pro-poor outcomes (Bräutigam, 2009; Handley, 2008: 101-36).

We are particularly interested in the question of the relationship between SBRs and pro-poor growth. But when and how should one categorise a growth path as 'pro-poor'? Strong growth is a necessary condition for poverty alleviation. Although the relationship between growth and poverty varied between countries, the incomes of the poor during the latter half of the twentieth century generally rose in line with growth (Dollar and Kraay, 2000) and it has been shown that market-oriented economic policies reduced infant mortality even after controlling for growth effects (Gerring and Thacker, 2008). This does not mean, however, that all capitalist growth paths are 'pro-poor' simply because the incomes of poor people may have risen through 'trickle down' effects. The term pro-poor typically refers to growth strategies which are explicitly designed to raise the incomes of the poor and to foster more egalitarian outcomes. Where this is done through consultation with key stakeholders, notably business and labour, the resulting economic ‘pact’ or ‘coalition’ takes on a more social democratic flavour.

A potentially useful way of thinking about this is to differentiate between ‘growth coalitions’ – in which SBRs successfully facilitate investment and growth – and ‘development coalitions’ – in which SBRs explicitly accommodate a broader set of concerns than just investment to promote a more equitable growth path. Bräutigam (2009) argues that such a ‘development coalition’ was constructed in Mauritius post independence by the socialist prime minister who was able to bring organised labour to the table and convince the business community of his government’s credible commitment to their prosperity, and that shared growth was necessary for stability (Bräutigam 2007, 2009: 1). He was able, in other words, to build a coalition by making all parties realise that the country was vulnerable systemically (small open economy largely dependent on a single export crop), that economic policies were necessary to build new manufacturing capacity (notably through export processing zones) and that the country had to ‘unify or sink’ (2009: 6). Another example of a development coalition born out of the need for national reconciliation and broader participation is that of Finland after the bloody civil war of

---

10 Thanks to Adrian Leftwich for pointing this out.
1918 in which the socialists were crushed. The Finish government sought to promote reconciliation and to forge a new national identity with a set of welfare and industrial policies which ‘distorted’ the market, but in ways which did not threaten fundamental property rights and which had the consent of business and labour (Jäntti et al., 2005).

To the extent that a ‘development coalition’ is necessary to produce the social stability needed for growth to take place at all, the distinction between a growth and a development coalition becomes somewhat forced. Nevertheless, the concept of a development coalition is useful as it allows us to consider the extent to which SBRs take into account a broader range of stakeholders, notably labour.

Once one moves beyond the state/business dyad and into the realm of ‘development coalitions’, it is helpful to draw on the ‘varieties of capitalism’ literature which points to the ways in which labour-market, welfare and growth policies shape the economy and deliver different forms of competitive advantage with more or less co-ordinated and solidaristic outcomes (see Hall and Soskice, 2001 and discussion below). Combining this with the growth-development coalitions approach frames markets as inherently ‘relational’ and structured by institutions; the key idea being that ‘varieties’ of capitalism and paths to development exist – and that these are shaped by political forces and different kinds of SBRs. The policy implication is that developing country governments can, through (co-operative) relations with business and labour, potentially build development coalitions which result in more co-ordinated, equitable and competitive varieties of capitalism.

Post-apartheid South Africa would seem to be a prime candidate for such a development coalition: a government committed to pro-poor growth; a large trade union movement and concentrated business sector with established business organisations. However, as argued in this report, insufficient attention is being paid to the incentives facing business to shed rather than hire labour, and there is a tension between promoting the black business elite and fostering more broad-based equality. A pro-poor growth path would require the state to take an active role in driving a more labour-intensive growth path.

Social democratic solutions in the advanced capitalist economies involved the construction of incomes policies in which organised labour agrees to restrain wage increases so as not to erode profitability and investment (see Glyn 2006 for an analysis of the 1960s; also Katzenstein 1984 on the benefits of corporatism in small states). Such bargains were struck either at national ‘peak level’ bargaining institutions, or at industry-level in the context of framework agreements which ensured co-ordination of wage-bargaining across sectors (Martin and Thelen, 2007). These agreements were forged predominantly through bargaining between organised business and labour, but governments in Sweden, Holland, Ireland, Australia and Denmark assisted the process by bringing certain social and economic policies to the table as a means of achieving a bargain solution – and by threatening to step in to resolve distributional conflict if labour and business could not do it voluntarily (Nattrass, 1999; Seekings and Nattrass, 2005). Martin and Thelen have shown the government officials and the public sector more broadly has been a crucial player in facilitating bargain outcomes in the advanced capitalist countries and Sinha (2005) has shown this to be the case in India as well.

Whereas co-ordinated market economies in Europe have helped bring about egalitarian outcomes (in that they encourage flatter wage distributions and are
accompanied by larger welfare states), corporatism has a more chequered record in developing countries, particularly Latin America. As shown by Moore and Hamalai (1993) and Lucas (1997), corporatist institutions that emerged under conditions of import substituting industrialisation lacked flexibility, could not incorporate new economic interests easily and were often easily manipulated by the state. This resulted in loss of legitimacy and in the fragmentation of business organisations. However, it is difficult to separate out the extent to which the issue of corporatist representation itself was the problem, or whether the problem originated from the protective policy environment which encouraged rent-seeking and protectionism on the part of business as opposed to more growth-enhancing, innovative and flexible responses. Business organisations in a more open-economy, liberalised, context where the state has less power and patronage, are likely to function very differently.

The kinds of social accords that are possible, will of course themselves be the outcome of political processes and economic incentives – a key one being the attitude taken by political leaders as to whether they sideline or endorse the recommendations made in the social accord (Hart, 2001). Government officials themselves need to buy into the broader project underpinning a social accord – and not be threatened by the fact that component parts of the deal may involve a range of state functions, interests and bureaucracies. As Chingaipe and Leftwich (2008) point out, all SBRs are intensely political and complicated precisely because they attempt to solve ‘a series of very complex and multi-layered collective action problems involving the interaction of different groups and interests in often distinct but overlapping spheres and levels of activity’ (2008: 142). They stress the important fact that business itself is often divided (e.g. different sectors have different interests) and that different branches of the state can pull in different directions (ibid: 143).

This was certainly the case in apartheid South Africa where business interests were fragmented by sector, race and language, and in post-apartheid South Africa where many of these fault-lines remain, and in the case of race, have become newly reconstituted. Collective action on the part of business was undermined in the past, as it continues to be today, by corporate concentration which provides big business with incentives and the capacity to deal with government directly, rather than via business organisations.

Ensuring collective action, especially at a macro level, is always difficult, historically contingent and inevitably requires some kind of institutional solution – at least in the sense of commonly accepted rules of interaction and engagement. Successful business organisation depends on the construction of trust and shared goals. But this, in itself, is more of an outcome of political processes than a necessary prior condition – and the construction of peak level bargaining institutions may themselves create a context in which trust can be developed and shared goals formulated so as to promote social harmony and an improved business environment. Obviously institutional design needs to resonate with, and be accepted by, established economic and political interests – and in this sense is profoundly situation-dependent. But even so, institutional change – especially at historical conjunctures where change is widely understood to be necessary – can have profoundly transformative implications. Designed well, they can change the dynamics between political and economic elites and facilitate more co-ordinated (and hopefully egalitarian) outcomes.
Some have argued that the construction of South African’s post-apartheid national tripartite institution, Nedlac, comprises such a transformative moment (Hart, 2001: 16). We argue that the situation was a lot more complicated in that new policies continued to undermine business unity, albeit in different ways. Thus, although black and white business interests were divided under apartheid, genuine unity between these groups was undermined in the post-apartheid period by black economic empowerment, which explicitly favoured black owners and managers. Similarly, the power of powerful individual capitalists to negotiate directly with policy makers and officials continues to bedevil collective action on the part of business, although this elite club has obtained new members and lost some old members (largely through disinvestment). SBRs thus continue to operate at two levels, one formal and peak-level; and another individualised and informal.

Another problem undermining the potential for a truly co-ordinated economic outcome was that the post-apartheid state lacked a coherent economic strategy. Different government ministries, notably Finance and Labour, pursued different implicit growth strategies, thereby creating further incentives for both organised labour and business to engage in bilaterals (informal and formal) with the state, rather than via trilateral bargaining in, or facilitated by, Nedlac. Recent policy reforms under the new Zuma government which have created different (and potentially rival) economic policy power bases in government may well make this problem worse.

4 SBRs, VARIETIES OF CAPITALISM AND THE SOUTH AFRICAN CASE

The key insight of the ‘varieties of capitalism’ perspective is that firms in all capitalist economies face ‘co-ordination’ problems which require them to develop relationships with various actors, notably the state and organised labour, but also banking and financial institutions. Key co-ordination problems include: setting wage and working conditions (which have implications not only for firm profitability, but also for unemployment, inflation and aggregate demand); securing skilled labour (which affects both firm profitability and the general level of competitiveness in the economy); forging relationships with suppliers (which may involve vertical integration) and developing forms of corporatist governance that overcome transactions costs and ensure access to finance (Hall and Soskice, 2001: 6-7).

These co-ordination challenges can be resolved in different ways. In an archetypal ‘liberal market economy’ (USA/UK) co-ordination is primarily through the market: labour-markets are highly deregulated (it is easy to hire and fire and wage bargaining takes place at individual- or firm-level); training is correspondingly general rather than firm- or industry-specific; relationships between firms are competitive and access to finance is based on balance sheet performance. In the European ‘co-ordinated market economies’ (notably Germany, and the Scandinavian social democracies) by contrast, labour markets are more regulated, wage-setting is co-ordinated across firms (through industrial-level bargaining and nationally negotiated frame-work agreements), relations between firms and employees are longer-term and more co-operative, finance flows from networks and long-term relations with banks that allow off balance sheet considerations to be made, and training is more industry- and firm-specific. These characteristics are summarised in Table 1.
The key insight of this body of literature is that firms will be satisfied with more co-operative relationships with organised labour and more solidaristic outcomes (both with regard to wage bargaining and the size of the welfare state) if the system also delivers the supply of skills and finance they need to operate profitably. Firms which prefer general skills and more flexible labour markets are likely to develop in, and gravitate to, liberal market economies. The implication for SBRs is that these are likely to be more institutionalised and to take place through employer organisations in coordinated market economies – whereas they are likely to be more informal, individually based and less regularised in liberal market economies. Competitiveness is ensured in liberal market economies through the operation of deregulated labour markets (which keep wages in line with productivity at firm-level) and in coordinated market economies by concerted attempts by labour, employers and the state to boost training and productivity whilst seeking to restrain wage growth to levels to maintain competitiveness. Table 1 summarises key components of the Hall and Soskice typology.

Table 1. Hall and Soskice’s Two ‘Varieties’ of Capitalism

<table>
<thead>
<tr>
<th></th>
<th>Liberal Market Economies</th>
<th>Coordinated Market Economies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Main form of coordination</strong></td>
<td>Mainly markets - but firms may also use also networks and hierarchies (in the case of vertical integration)</td>
<td>Predominantly negotiation through corporatist institutions (but sometimes also through networks, hierarchies)</td>
</tr>
<tr>
<td><strong>over-come transactions costs</strong></td>
<td>Predominantly spot exchange and short-term (but also reiterated exchange among networked firms and orders and directives in vertically integrated firms)</td>
<td>Predominantly longer-term institutionalised meetings (but also reiterated exchange, orders and directives where appropriate)</td>
</tr>
<tr>
<td><strong>collective action problems</strong></td>
<td>Predominantly longer-term institutionalised meetings (but also reiterated exchange, orders and directives where appropriate)</td>
<td>Predominantly longer-term institutionalised meetings (but also reiterated exchange, orders and directives where appropriate)</td>
</tr>
<tr>
<td><strong>Characteristic interaction among stakeholders</strong></td>
<td>Predominantly longer-term institutionalised meetings (but also reiterated exchange, orders and directives where appropriate)</td>
<td>Predominantly longer-term institutionalised meetings (but also reiterated exchange, orders and directives where appropriate)</td>
</tr>
<tr>
<td><strong>Firm characteristics</strong></td>
<td>Dispersed stock ownership, specialised managerial corporations, predominantly competitive relations with other firms, limited participation in sectoral associations</td>
<td>Concentrated ownership, often bank-controlled, strong participation in sectoral associations, cooperative relations with other firms.</td>
</tr>
<tr>
<td><strong>Employment and Industrial relations</strong></td>
<td>Short-term, market-driven employment relations. Few unions (company unions rather than industrial unions)</td>
<td>Long-term, negotiated employment relations. Strong, encompassing unions, industrial-level bargaining.</td>
</tr>
<tr>
<td><strong>Skills</strong></td>
<td>General</td>
<td>Sector specific</td>
</tr>
<tr>
<td><strong>Role of the state</strong></td>
<td>Limited to ensuring property rights, key public goods and maintaining the institutional context of the liberal market economy</td>
<td>Committed to facilitating the institutional architecture of co-ordinated outcomes, providing supportive industrial, economic and labour-market policies for co-</td>
</tr>
</tbody>
</table>
4.1 The Concentrated Nature of South Africa's Variety of Capitalism

South Africa's particular historical trajectory does not fit neatly into any archetypal ‘variety’ of capitalism. This is because the heavy hand of the state intervened in ways which were often ideologically inspired (in the sense that state institutions were under political pressure to deliver benefits to the white population and only to the black population in so far as this was good for overall economic growth or political stability) and because the institutions which were created served a limited section of the population and discouraged job creation for the majority – albeit still facilitating redistribution through the fiscus. Inherent in the varieties of capitalism literature is the notion that different institutional configurations are possible and underpin different forms of competitive advantage. It is at the heart an equilibrium analysis which assumes that the existing institutional environment is to an important some both stable and functional. By contrast, the institutional context of capitalism in South Africa changed over time and the balance of evidence suggests that growth would probably have been faster and more equitable without it (Moll, 1991; Feinstein, 2005).

Although strong growth until the 1970s (see Figure 1) indicates that apartheid did not prevent growth, and indeed, may have facilitated it in some sectors (such as
mining and agriculture), it is important to bear in mind that profit rates fell steadily across the post-war period (Nattrass, 1991) and South Africa’s productivity and growth performance has been ‘consistently mediocre’ when compared to other countries at similar levels of development (Moll 1991: 279). Moll highlights in particular the fact that South African did not take advantage of the long global post-war boom to grow its exports. Indeed, South Africa’s share of global manufacturing exports fell from 0.8% to 0.3% between 1955 and 1985 and its share of developing country exports fell from an astonishing 12.6% to 1.9% over the same period (ibid: 282; also Feinstein, 2005; Haussman et al., 2008).

In short, it is probably reasonable to conclude that racially coercive measures to force Africans off the land and into low wage employment in the early and mid twentieth century probably laid the basis for economic growth – at least insofar as they helped to secure a plentiful supply of cheap unskilled labour to the gold-mines and farms (although the gold mines also relied heavily on migrant workers from elsewhere in Southern Africa). But as the economy shifted away from a dependence on agriculture and mining, and as productivity growth was slowed in all sectors by racially restrictive measures, the apartheid institutional infrastructure was revealed to be a major fetter on development. Business responded to shortages of skilled labour and to the incentives provided by government with regard to import-substituting investment, tax-breaks for capital-investment and negative real interest rates in the 1990s by becoming ever more capital-intensive. As noted earlier, the tragedy of this growth path for the current period is that just as the economy switched from labour shortage to labour surplus in the 1970s, economic growth became steadily less labour-demanding. High and rising unemployment was the inevitable result. As unemployment is the key driver of poverty and inequality, South Africa’s variety of capitalism was (and remains) fundamentally not ‘pro-poor’. Although economic growth and redistribution through the fiscus enabled absolute poverty levels to decline over most of the twentieth century, the growth path fostered rising inequality by marginalisation as unemployment became an enduring structural feature of the economy.

The ‘varieties of capitalism’ literature focuses predominantly on the advanced capitalist economies, but there have been attempts to apply it to developing countries. A recent attempt is that by Schneider (2008) who distinguishes two further varieties: ‘network market economies’ in which co-ordination is achieved predominantly through trust (e.g. Japan, Taiwan), and ‘hierarchical market economies’ characterised by strong degrees of vertical integration (e.g. Latin America and South Africa). His approach, however, is very firm-centric and limited by its lack of attention to the way in which the state shapes the institutional context of capitalism and the kind of SBRs that arise.

Interestingly, Schneider classifies South Africa as a ‘hierarchical’ variety of capitalism on the grounds that firms in the leading sectors of the economy are predominantly large and concentrated (Schneider, 2008: 15). This characterisation, whilst blunt, is not entirely without merit as in 1994, at the dawn of South Africa’s new democracy, the gold-mining giant Anglo American controlled 43% of the entire Johannesburg Securities Exchange capitalisation – and the top five groups (Anglo American, Rembrandt, and life assurers: Sanlam; Old Mutual; and Liberty Life) controlled 84% through complex cross-holdings and preferential shares (see Table 2). Such concentration translated more generally into real market power – either in the form of a few firms dominating particular market segments (Rumney, 2004: 408-9) and
or active collusion and anti-competitive practices by market leaders (Competition Commission, 2008).

This concentration arose in part as a response to the economics of mining itself, which was highly capital-intensive and conducive to economies of scale, and to the need for the original mining houses to secure reliable sources of finance and backward linkages into manufacturing to secure machinery etc. The expansion of gold mining provided the market and some of the capital to foster industrialisation, and this was assisted by government provision of infrastructure and import controls. Government also fostered concentration in other ways, notably through active support for Afrikaner capital (through preferential contracts and subsidies) and by setting up state-owned corporations which were almost entirely run by Afrikaners (O’Meara, 1996: 74-80; Handley, 2008: 29-61). Largely as a consequence of government policies, Afrikaner control of private industry rose from 6% in 1948 to 21% in 1975, and to 45% if state corporations are included (ibid: 80).

Table 2: Control of JSE Market Capitalisation (% of Total)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Anglo American</td>
<td>53.6</td>
<td>44.2</td>
<td>43.3</td>
<td>17.4</td>
<td>20.2</td>
<td>22.3</td>
<td>18.7</td>
<td>17.3</td>
<td>21.0</td>
</tr>
<tr>
<td>Sanlam</td>
<td>12.2</td>
<td>13.2</td>
<td>10.5</td>
<td>11.1</td>
<td>6.3</td>
<td>3.8</td>
<td>2.7</td>
<td>1.6</td>
<td>2.3</td>
</tr>
<tr>
<td>SA Mutual/Old Mutual</td>
<td>10.6</td>
<td>10.2</td>
<td>9.7</td>
<td>8.8</td>
<td>12.0</td>
<td>6.9</td>
<td>4.5</td>
<td>4.5</td>
<td>5.5</td>
</tr>
<tr>
<td>Rembrandt/Remgro</td>
<td>3.8</td>
<td>13.6</td>
<td>13.0</td>
<td>9.0</td>
<td>10.0</td>
<td>8.1</td>
<td>7.9</td>
<td>7.8</td>
<td>7.8</td>
</tr>
<tr>
<td>Directors</td>
<td>8.1</td>
<td>6.7</td>
<td>7.0</td>
<td>14.4</td>
<td>7.4</td>
<td>6.1</td>
<td>5.8</td>
<td>8.2</td>
<td>6.7</td>
</tr>
<tr>
<td>Liberty Life/Std Bank</td>
<td>2.0</td>
<td>2.6</td>
<td>7.2</td>
<td>9.5</td>
<td>6.0</td>
<td>4.3</td>
<td>4.7</td>
<td>4.3</td>
<td>3.5</td>
</tr>
<tr>
<td>Black Groups*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>9.6</td>
<td>3.5</td>
</tr>
<tr>
<td>Foreign</td>
<td>5.9</td>
<td>2.1</td>
<td>2.2</td>
<td>3.9</td>
<td>10.1</td>
<td>17.9</td>
<td>18.5</td>
<td>14.2</td>
<td>20.8</td>
</tr>
<tr>
<td>ABSA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2.2</td>
<td>2.3</td>
</tr>
<tr>
<td>Rand Merchant Bank/FirstRand</td>
<td>0.5</td>
<td>4.8</td>
<td>4.7</td>
<td>4.4</td>
<td>4.9</td>
<td>5.0</td>
<td>3.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SASOL</td>
<td>1.7</td>
<td>2.2</td>
<td>3.8</td>
<td>3.7</td>
<td>4.2</td>
<td>5.9</td>
<td>4.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investec/Fedsure</td>
<td>0.4</td>
<td>3.3</td>
<td>1.9</td>
<td>0.7</td>
<td>0.8</td>
<td>1.0</td>
<td>1.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anglovaal</td>
<td>2.1</td>
<td>2.5</td>
<td>3.6</td>
<td>0.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bidvest Group</td>
<td></td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.2</td>
<td>1.1</td>
<td>1.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SAB Miller</td>
<td></td>
<td>4.0</td>
<td>3.5</td>
<td>5.1</td>
<td>4.9</td>
<td>5.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State</td>
<td></td>
<td>1.5</td>
<td>2.2</td>
<td>2.5</td>
<td>2.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutions/Unallocated</td>
<td>1.7</td>
<td>4.9</td>
<td>0.9</td>
<td>4.2</td>
<td>9.1</td>
<td>11.2</td>
<td>10.3</td>
<td>13.7</td>
<td>9.1</td>
</tr>
</tbody>
</table>


The trend to concentration was exacerbated further by exchange controls which prevented business from divesting abroad, thereby encouraging the acquisition of assets across the entire domestic economic spectrum. When exchange controls were relaxed substantially in the post-apartheid period, large corporations shed their non-core interests in order to improve performance and to attract foreign investors when listing abroad. Anglo American, most dramatically, reduced its share of the JSE
capitalisation from 43% in 1994 to 17% in 1998 (see Table 2) as it ‘unbundled’ (by creating three distinct units, one of which, Johannesburg Consolidated Investments, it sold to a BEE consortium), listed on the London Stock Exchange and moved its head office to London. Corporate unbundling in the mid to late 1990s essentially reversed the integration of mining, industrial and finance activities of the old mining houses. This, coupled with the impact of BEE interventions to promote black ownership (which put 10% of the JSE in black hands by 1996) and sweeping deregulation and privatisation, including the abolition of agricultural marketing boards and privatising state assets, points to the major way in which the ‘critical juncture’ of South Africa’s democratic transition transformed the business environment in South Africa.

The South African Competition Commission, however, remains concerned about the continued existence of real market power. In particular, it worries about entrenched dominant economic interests that can protect their position by price fixing, collusion and raising barriers to entry (2008: 14). Unbundling has resulted in greater foreign ownership and institutional ownership, both of which de facto give executive directors greater power (as such investors express displeasure with performance by selling shares rather than getting rid of managers). That a network of powerful individuals serving on many boards (including companies that should be in competition with each other) exists, is regarded by the Commission with concern (2008: 16-7).

In a recent assessment of anti-competitive behaviour in South Africa, the Competition Commission highlighted the problem of vertical integration, concentration and collusion in the grain supply chain which has resulted in the major processing firms raising prices to consumers while squeezing earnings of farmers (2008: 30-7). This, they pointed out, was bad for pro-poor growth as it raised food costs and made it difficult for emerging farmers to gain a foothold in the market. The Commission argues that deregulation of the old marketing and control boards did not have the expected benefits in terms of increasing competition because concentrated firms effectively stepped into the niche they had filled, thereby putting themselves in a position to earn monopoly profits.

The Competition Commission also noted that concentration and collusion in the cement, brick and steel industries has resulted in prices rising faster than the producer price index and undermining South Africa’s infrastructural investment program (ibid: 38-49). As infrastructural investment is a core pillar of South Africa’s growth strategy, this anti-competitive element is particularly problematic. Interestingly, the Commission argues that the dominant position of Mittal Steel has its roots in the advantages the company enjoyed in the past, when prior to privatisation, it was the state-owned Iron and Steel Corporation (Iscor) (Competition Commission, 2008: 63). In addition to undermining infrastructural development, concentrated market power in steel also undermines down-stream industries like the motor industry. Government control of the telecommunications industry and poor regulation and tardy liberalisation of the cell phone industry is also implicated by the Commission in excessive prices and limited competition in telecommunications (ibid).

But while corporate concentration was and remains an important feature of the South African variety of capitalism, it would be a mistake to characterise the South African economy on this characteristic alone, as it deflects attention from the way that the state structured, and continues to structure, the environment within which business operated. A central defining characteristic of the apartheid variety of
capitalism was the way that the state intervened aggressively in the economy to protect white employment through labour-market and trade and industrial policy, and to foster capital-intensive growth, thereby limiting the capacity of the economy to create unskilled jobs (Seekings and Natrass, 2005). As noted above, it also shaped the economy directly through its control of the network industries. At the end of apartheid, the state owned the TV stations, all the major radio stations, it controlled electricity generation and supply (through the parastatal Eskom), had a monopoly on telecommunications (through its control of Telkom) and the parastatal Transnet owned and ran the rail network and the national airline (Rumney, 2004: 402). As of 1994, the government accounted for half of South Africa’s fixed capital stock of which 28% was accounted for by public corporations or government business enterprises (data from the South African Reserve Bank). Although substantial privatisation took place after the transition to democracy (notably the privatisation of Iscor), by privatising what had effectively become natural monopolies where the market power built up during the period of state ownership proved unassailable), the economic structure remained highly uncompetitive (Competition Commission, 2008).

The other notable impact of government policy on the structure of ownership and control in post-apartheid South Africa is BEE, a policy which, like the pro-Afrikaner business stance of the apartheid government, seeks to alter the distribution of assets and income in the direction of particular groups, in this case, black business. And, just as the old white corporate sector had maintained power and control over vast swathes of the apartheid industrial economy through inter-locking directorships and shareholdings, the new black elite is tightly connected, serves on each other’s boards and is closely connected to the national government (Calland, 2006: 265; Andrews, 2007).

Many members of the new super-rich black elite are ANC insiders. These include: Tokyo Sexwale, who was premier of Gauteng Province; Cyril Ramaphosa (Mbeki’s main rival to succeed Mandela); Patrice Motsepe who has never been active in the ANC, but is linked by marriage to ANC leaders; Mathews Phosa was premier of Mpumalanga Province; Popo Molefe was premier of North-West Province; Saki Macozoma was a prominent ANC spokesperson; Moss Nqosheng was Mbeki’s economic adviser; Wendy Luhabe is the wife of the current ANC premier of Gauteng; Zwelakhe Sisulu (son of Walter Sisulu) and so on (see also Van Wyk, 2009: 34-5). The upward mobility of these men and women has been extraordinary. For example, Ramaphosa, once a mine-worker and subsequently leader of the National Union of Mineworkers and then Secretary General of the ANC, is now director of Assore, Bidvest, Mondi, MTN, SABMiller, PLC, Standard Bank, Anglo American and MediClinic. He is the second most powerful black director in South Africa.

However, the personification of the new black elite is Patrice Motsepe, who, along with two other South Africans, Nicholas Oppenheimer (son of Harry) and Johann Rupert (son of Anton), made it onto the Forbes list of international dollar billionaires in March 2008. Motsepe was born in 1962, in Soweto. He is the non-executive chair of African Rainbow Minerals (with extensive interests in platinum and other precious and non-precious metals) and of Harmony Gold Mining (the fifth largest gold producer in the world); vice-president of the Chamber of Mines; president of the largest black business grouping (the National African Federated Chamber of Commerce (Nafcoc)) and, until May 2008, the peak-level business organisation Business Unity South Africa); non-executive director of ABSA and Sanlam (in which he has a 5.5% stake) and president and owner of the Mamelodi Sundowns football
In 2006, he was recorded as the eighth richest investor on the JSE, but in 2006–07 his investments grew in value from R5bn to almost R8bn, taking him to number four. In early 2008, he made it to the Forbes list of international dollar billionaires. He owes his meteoric rise to the BEE policies of the Mbeki administration.

4.2 Black Economic Empowerment

Schemes to transfer white share ownership to black started in the early 1990s with the sale of National Sorghum Breweries (1990) and the sale of a 10% stake in Metropolitan Life (1993) to a black consortium. But as these deals were few and far between, black business organisations, notably the Black Management Forum and Nafcoc, started pushing harder for the process to be backed by an explicit policy. The origins of BEE as a formal policy initiative can be traced back to a meeting in 1993 at Mopane Lodge, in the Kruger National Park, where ANC and black business leaders agreed to work together. However, it proved difficult to obtain a united black business voice (with Nafcoc and the Black Management Forum proposing different BEE models). A Black Business Council was eventually created to attempt to forge greater unity. It appointed a Black Economic Empowerment Commission in 1997, headed by Cyril Ramaphosa, which reported to government in March 2001.

In a series of speeches, Mbeki defended the government’s policy of building a black business elite on the basis that it was part of its commitment to deracialisation. The first major legislation affecting BEE was the 2000 Preferential Procurement Framework Act, which required that government favours tenders from black-owned companies. Following the report of the BEE Commission, further BEE legislation was promulgated in 2003 in the context of an explicit government strategy. Central to the new strategy was the requirement that existing companies in each sector of the economy commit themselves to ‘charters’ specifying targets in terms of BEE deals (Hirsch 2005; Gqubule 2006; Turok, 2008: 155–7)). This was backed up by legislation, notably the Minerals and Petroleum Development Resources Act of 2004 which required mining companies to become BEE compliant in order to transfer their ‘old order’ mining rights to ‘new order’ mining rights. Mining companies were required to have 15% black ownership by 2009 and 26% by 2014 in order to keep operating. This threat of losing mining rights galvanised the industry into producing the Mining Charter (which set objectives for employment equity and targets for black share ownership).12

Most of the large financial institutions announced deals in 2005, with Old Mutual and Nedbank both reaching deals worth R3 billion or more. Other big deals include Newco (Kumba Resources, R9 billion) and De Beers (R4 billion). The BEE players were the established investment groups such as Shanduka, Mvelaphanda and Safika. Hitherto smaller investors became prominent in 2006, including the women-led groups Peotona and Ayavuna, and former Department of Trade and Industry bureaucrat Alistair Ruiters’ Ehlobo.13 Many of the leaders of these groups have management experience in the public sector.

12 This is available on: http://www.thedti.gov.za/bee/beecharter/MiningCharter.pdf
13 Alistair Ruiters was a former director general of the Department of Trade and Industry, left the public sector to set up Ehlobo – whose task it was to ‘facilitate’ manufacturing contracts with other parties (Turok, 2008: 171).
The basic model for a BEE deal is that black investors buy a discounted stake in a company (sometimes through holding companies or Trusts) financed through a combination of bank loans, dividend flows and capital appreciation in the shares of the company involved. In return, the company ‘gets favourable treatment, directly by licensing or indirectly through getting or retaining business from government’. Gaining informal access to the black political elite through BEE partners was another obvious benefit. As Turok points out:

‘Favoured BEE partners are those with inside knowledge of the government and easy access to ministers and top officials. The golf course is a favourite contact point. There is a great deal of socialising among top people in government and business where informal talk may prove a great asset. Americans call it ‘schmoozing’ and it brings in a great deal of business’ (2008: 157).

For those established corporations seeking to ‘unbundle’ and divest abroad, the BEE mechanisms also assisted them to ‘transfer some of the risks associated with South Africa’s semi-peripheral location (as expressed through its currency) from a white conglomerate to emerging black capital, and to labour’ (Carmody, 2002: 265). Some ‘internal funding mechanisms’ simply entail handing shares over to black ‘empowerment partners’. This can be interpreted as a progressive measure to help black entrepreneurs and investors who do not have the capital to purchase shares outright, or, in the more cynical assessment of Moletsi Mbeki, to become ‘parasites’ rather than capitalists, ‘living off the assets handed to them by existing companies’.

These get-rich quick ownership transfer schemes have been at the heart of the dramatic growth in the personal income and wealth of BEE beneficiaries – but they have been dependent on the steady rise in share prices. As long as share prices were rising, companies could take the risk of allocating shares to black investors to be financed through rising share and dividend prices. Banks too, could afford to provide finance to black businessmen for the same reason. However, as soon as equity prices stopped rising, so too did BEE deals. As the white counterpart to a recently failed BEE deal noted, ‘there is only so much security available’ in these recessionary times.

A periodisation of recorded ‘BEE deals’ – by which ownership is transferred to recognised BEE owners, suggests three distinct periods. The first, from 1996 to 1998 which saw deals valued at about R20 billion, came to an end with the slump in equity prices (see Figure 6) which took out BEE pioneers New Africa Investments Limited (Nail) and the National Empowerment Consortium. In some cases, the established conglomerates bought back shares they had previously sold as part of BEE deals – and at a profitable discount (Carmody, 2002: 265). A period of hiatus followed, where the value of deals between 1999 and 2001 was only about R10 billion. The most recent phase started in 2003 with an explosion of deals averaging almost R60 billion per year between 2003-07, which co-incided with a dramatic rise in stock market values (Figure 6). These figures for recorded deals exclude the large number of deals that do not disclose their value, but these are typically very much smaller ones. Large deals in 2006 included the Royal Bafokeng deal with Implats [Impala Platinum], worth R12 billion (in its revised form). Three other large deals were worth about R7 billion each (Highveld Steel, Peermont, and Holcim) (Shubane and Reddy, 2009).

---

14 Interview with a broker of BEE deals, February 2009.
16 Interview with Moletsi Mbeki, Mail and Guardian BEE Supplement, June 26 to July 2 2009.
17 Mike Upton, chief executive of Group Five, reported by Reg Rumney, 'No fuss over failed deal', Mail and Guardian BEE Supplement, 26 June to July 2, 2009.
By mid 2008, Moody Investor Services estimated that the total value of BEE deals topped R200 billion, with 153 deals in 2007 estimated at R97 billion. As shown in Table 3, this has been accompanied by a dramatic growth in the number of black directors.

The consultancy firm *BusinessMap* estimates that the total value of BEE deals as at the end of 2006 was to transfer ownership of between 6 and 10% of the JSE (Shubane and Reddy, 2007: 18). A significant minority share of BEE investment groups is owned by non-black individuals, however. On the other hand, black South Africans also own JSE indirectly through pension funds. *BusinessMap* estimated the value of this indirect ownership to be about 15% of the JSE at the time (*ibid*). Overall, black ownership therefore amounts to not less than one-fifth and not more than one-quarter of the JSE. Given that one-third of the JSE is owned by foreign investors (*ibid*: 19), black ownership probably amounts to about one-third of the South African-owned total, or one-half of the white South African-owned total.

**Table 3: Black Directors in JSE Companies**

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>% change 2006-07</th>
<th>% change 2007-08</th>
<th>% change 2006-08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of JSE listed black directorships</td>
<td>485</td>
<td>620</td>
<td>714</td>
<td>28%</td>
<td>15%</td>
<td>47%</td>
</tr>
<tr>
<td>Total number of black directors on the JSE</td>
<td>362</td>
<td>452</td>
<td>487</td>
<td>25%</td>
<td>8%</td>
<td>35%</td>
</tr>
<tr>
<td>Total number of JSE-listed</td>
<td>93</td>
<td>111</td>
<td>118</td>
<td>19%</td>
<td>6%</td>
<td>27%</td>
</tr>
</tbody>
</table>

---

19 The upper limit takes into account the increased value over time of shares transferred in earlier years.
black executive directors on the JSE

| Total number of JSE-listed black directorships | 93 | 96 | 100 | 3% | 4% | 8% |
| Number of JSE listed companies with at least one black director | 163 | 195 | 230 | 20% | 18% | 41% |

Source: Empowerdex (as reported in Mail and Guardian, August 29 to September 4, 2008.

Although direct black ownership (through BEE deals) is much less important numerically than indirect ownership (through pension funds) – it is more powerful symbolically as it creates a conspicuous new cadre of wealthy black business people with an interest in promoting and protecting capitalism.\(^{20}\) According to an industry source, this was one of the reasons why white business participated in BEE deals, i.e. to ‘safeguard their own future’ (quoted in Handley, 2008: 71). However, the mere recognition of a collective interest in BEE does not explain why individual firms engaged in it. Profit motive and the desire to obtain an influential black partner no doubt were also important factors.

Partly in response to an emerging backlash against this ‘enrichment’ (discussed further below), the government gazetted new ‘Codes of Good Practice’ (for so-called ‘broad-based’ BEE) in February 2007.\(^{21}\) These set out general rules for the assessment of BEE-compliance, crediting firms on the basis of seven criteria: ownership (20% weighting), executive control (10%), ‘employment equity’ in management (15%), skills development (15%), preferential procurement (i.e. procurement from BEE-compliant suppliers, 20%), ‘enterprise development’ (i.e. assisting other enterprises to develop and become sustainable, 15%) and a final category that included any other initiatives that promoted ‘access to the economy for black people’ (5%). The codes included guidance for industries to draft their own sector charters if they wished, as well as a generic scorecard indicating BEE ‘points’ for each of the seven criteria applicable to companies in industries for which sector charters did not exist. Importantly, the system makes provision for voting rights to be transferred immediately, even where ‘ownership’ is debt-financed (which appears to be the case with regard to the bulk of BEE deals).\(^{22}\)

The BEE points earned by a firm determine its eligibility for, inter alia, public sector procurement contracts (which allow BEE compliant firms to win government contracts over non-compliant firms even though their bid prices are higher). Contracts to BEE consortia include building a new airport terminal in Cape Town and a new stadium for the soccer World Cup, running the national lottery, and providing security services to provincial hospitals (Shubane and Reddy, 2007a: 17). However, BEE points are becoming increasingly important for private sector contracts (as the BEE status of supplier firms affects the BEE status of contracting firms).

---

\(^{20}\) According to an industry source, this was one of the reasons why white business participated in BEE deals, i.e. to ‘safeguard their own future’ (quoted in Handley, 2008: 71). However, the mere recognition of a collective interest in BEE does not explain why individual firms engaged in it. Profit motive and the desire to obtain an influential black partner no doubt were also important factors.


\(^{22}\) Information on legislation, charters, BEE scorecards etc can be found on the Department of Trade and Industry website: [http://www.thedti.gov.za/bee/beecodes.htm](http://www.thedti.gov.za/bee/beecodes.htm)
Past and present ANC leaders have business interests; senior state officials know that they can build business careers quickly on leaving state employment; and ANC leaders and state officials live in the same social world as the new black economic elite. The result is an unabashed ideology that what is the promotion of a black business elite is just (on the grounds of deracialising opportunities) and what is good for black business is good for South Africa (on a range of grounds, including the social democratic argument that wealth creation provides the resources that can be redistributed to the poor through the government’s social expenditure). However, this attempted link to pro-poor growth is far from compelling. As Gumede writes, ‘The ANC has firmly established itself as the party of black business, the black middle class and professionals. The ANC ‘will instinctively place the needs of these groups before those of the slum dwellers, unemployed, rural constituents and the youth’ (2002: 252). Turok makes a similar point, arguing that the ANC’s ‘goal of social revolution could be compromised’ if ‘the state allows BEE deals to slide into political cronyism by favouring a small elite with contracts and opportunities that open the road to nepotism and easy-money practices’ (2008: 164).

The ANC’s own ally, the South African Communist Party (SACP), provides a more political interpretation of the government’s sponsorship of elite black business. In a May 2006 discussion document, the SACP identified the construction of an ‘alliance between emerging black capital and ... state-related technical/managerial strata’ as a key part of an offensive against the left. It accused emerging black capital of being ‘excessively compradorist and parasitic’, dependent on state power to compel ‘established capital to cut this emerging faction a slice of the action in order to remain in favour’ with the new political elite. Andreasson makes a similar argument describing the new black elite as ‘comprador capitalists’, getting rich by serving the interests of an ‘international capitalist class’ (2007: 277). The SACP believes that the relationship between black capital and the ANC leadership is symbiotic: with the latter needing the former against more progressive opponents (SACP 2006). It certainly suits the ANC leadership to be able to play off their allies in the trade unions and SACP against their (black) allies in business, weakening both and thereby strengthening the ANC political elite itself. Whether or not this was the intention, it appears to be the outcome.

As the number of BEE deals has grown, there have been growing protests against this form of ‘enrichment of the few’ and demands for greater redistribution and solidaristic outcomes from within the ANC and from the ANC’s alliance partners, the SACP and Cosatu (see also section 4). In response, the ANC held a series of meetings in 2008 with black businessmen to discuss the problem and it was agreed that BEE needs to be ‘reviewed’ and become more ‘broad based’. Mathews Posa, a millionaire in his own right (and soon to become national treasurer of the ANC), admitted that ‘the reality is that a few of us were empowered at the expense of the majority’, whilst Robert Gumede (a fellow tycoon) said that BEE had been primarily about fronting, acquiring tenders and amassing wealth instead of creating jobs and new black entrepreneurs (Business Times (supplement of the Sunday Times), October 19, 2008).

This backlash, coupled with the negative impact of the recent nose-dive in shareholder value (see Figure 6), raises serious questions for the continuing viability of BEE in South Africa. According to a February 2009 report, of twenty prominent BEE deals studied over the past four years, all but two were ‘under water’ – meaning that dividends and the value of the share price has fallen so far that BEE investors
cannot cover the cost of financing the deal. This means that the deals will either fall apart (losing the firms in question their ‘BEE points’, or the firms themselves have to cover all or part of the losses to keep the deals alive (thereby harming profits and/or other share-holders). Many of the problematic deals were in the mining industry, which raises questions about whether they will lose their BEE status and hence their mining rights. Other concerns pertain to the exposure of banks to BEE deals which a senior banker described as ‘subprime-like’ and suggesting that governments need to play a role in rescuing deals, directly or through tax policy. Other banks have kept quiet, but there are growing calls for banks to sit down with the Reserve Bank and figure out their exposure to BEE deals (ibid).

The most recent BEE deals appear to be less dependent on share prices and more genuinely broad-based. For example, SABMiller has just concluded a R6 billion empowerment deal which instead of benefitting what the press described as ‘the usual suspects’, simply passes shares to its black employees (who do not have to pay for them – so no external funding is required) and to its black retailers (who pay a nominal amount per share). This boosts black ownership to 16%. Dividends are paid out in accordance with company performance. Such deals have the benefit of aligning the interests of employees more strongly with management, thereby reducing the risk of strikes, retrenchments etc. But whether this will be good for job creation remains to be seen.

5 BUSINESS ORGANISATION AND TRIPARTISIM IN SOUTH AFRICA

The peak-level business organisation in South Africa is Business Unity South Africa (BUSA), formed in 2003. It has 45 member organisations ranging from regional and national chambers of commerce, to specific economic sectors (e.g. minerals, agriculture, finance, tourism, building, etc) and professional interest groups (e.g. women, black professionals) and employers associations (e.g. Chamber of Mines, Steel and Engineering Industries Federation of South Africa).

But while peak-level umbrella bodies like BUSA give the appearance of unity, this is often fragile and tenuous as members have different, and even competing, interests (e.g. over affirmative action, BEE, trade liberalisation, industrial policy). The fact that many of the professional and business organisations are divided by race (with small black business, black managers, accountants, lawyers, farmers choosing to organise separately) and sector (mining, engineering, retail, finance etc) points to the continued salience of specific economic and political interests in shaping collective action. Furthermore, the mode of representation of small and large business is uneven, with small businesses represented in cascades (from regional chambers of commerce to the federated chambers which are members of BUSA) and big business represented directly through powerful employer bodies (e.g. the Chamber of Mines) or through Business Leadership South Africa, a grouping of South Africa’s largest corporations and Multinational corporations. This has resulted in the interests of big business dominating over those of smaller business (Nattrass, 1998; Handley, 2008).

26 The South African Foundation changed its name to Business Leadership South Africa in 2005. For information on BSA and its members go to: http://www.businessleadership.org.za
5.1 Historic Roots

The fragmented nature of South African business has its roots in the dominance of key sectors (notably mining), in the industrial bargaining system which reinforced sectoral divisions by regulating wages on sectoral and regional levels, in the concentrated nature of ownership which incentivised the large conglomerates to deal directly with the government (Nattrass, 1997b, 1998), and political divisions. The result was a plethora of business organisations split by race, region, sector and size of firm. Thus, for example, the representation of small business interests was split between the Afrikaner Handels Institute (AHI) which represented Afrikaner small business in all sectors except agriculture and had regional business chambers covering most small towns and metropolitan areas (Nattrass, 1997b: 36-7) and its English-speaking counterparts, the Federated Chambers of Industry and the Association of Chambers of Commerce (which eventually merged in 1990 to form the South African Chamber of Business). Black business was also split between Nafcoc, which was created in 1955 to represent black business interests, but was dependent on grants from the white corporate sector (notably South African Breweries and Anglo American) for most of the apartheid period and subject to internecine conflict (Nattrass, 1997b: 44-5) and the Foundation for African Business and Consumer Services (Fabcos) an umbrella body of 14 organisations created in 1989 with strong roots in the taxi and tavern industries.

During apartheid, English and Afrikaans capital found it difficult to develop a unified stance vis a vis the state. This was partly because they faced objectively different business environments in that the state ‘directed official business to Afrikaners’ who in turn ‘channeled Afrikaner capital into ethnic banks, investment houses, insurance companies and publishing houses’ (Thompson, 1995: 187). However, Afrikaner businesses in general would have been just as constrained by racial restrictions as their English counterparts, but because of their ideological support for the government and their cozy relationship to it, chose not to criticise government openly – though some did on a more informal basis. For example, Anton Rupert, in his submission to the TRC, included copies of correspondence between him and Prime Minister Verwoerd over the negative economic impact of the colour bar (Nattrass, 1999b: 383). This suggests that there may have been some resistance of this kind to apartheid policies by Afrikaner capitalist who benefited from state largesse in other respects – but that the criticisms were not public or strongly argued.

SANLAM, in its submission, suggests that even Afrikaner capital may have felt intimidated by the government, saying: ‘Government is so powerful and dominant that a business organisation will seriously jeopardise its prospects of success by crossing swords with politicians’ (cited in Nattrass, 1999b: 383). The TRC, however, did not buy this rather self-serving and blinkered analysis. It pointed out that: ‘While there are clear constraints imposed by political power, to say that business was incapable of crossing swords with politicians is to deny the power (and responsibility) that accompanies financial muscle and personal contacts’ (in Nattrass, 1999b: 384).

Many businessmen, of course, no doubt supported apartheid policies or just accepted them as an inevitable fact of life. The AHI admitted as much in one of the more frank submissions to the TRC:

‘Without in any way detracting from the AHI’s willingness to accept responsibility … It must be noted that support for separate development was part and parcel of the majority of the white community’s thinking at the time.
The white Afrikaans churches, newspaper, cultural organisations and the wider community broadly subscribed to the notion that the separate development of South African population groups was seen as the best guarantee for overall justice and peace in the country. The AHI was part of that collective thinking’ (cited in Nattrass, 1999b: 383).

Even the large corporate mining sector was subject to social constraints. According to Lipton, the fact that the COM was the last major employer association to recognise black trade unions (in 1982) is attributable to the COM being an unusually tight and effective organisation ‘reinforced by social/class ties, which made individual mine-owners reluctant to break rank with their colleagues, fellow members of the Rand club’ (1986: 136).

Even so, as time went by, urban business (represented by chambers of business) spoke with an increasingly unified voice when it came to resisting and complaining about the colour bar, which raised the cost of labour, and protesting the pass laws and the physical planning act which restricted African employment in towns (Nattrass, 1997: 24-5; Nattrass, 1999: 382). By the early 1970s, the position of the AHI had become ‘indistinguishable’ from its English speaking counterparts (Greenberg, 1980: 190). In 1976, Oppenheimer and Rupert (the mammoths of English and Afrikaner capital respectively) formed the Urban Foundation to push for reform in the areas of influx control, housing, black land ownership etc.

This was the first manifestation of a pattern which became more pronounced during South Africa’s transition to democracy in which the political impetus for change from the business community came from small, yet powerful, groupings of business leaders. In terms of Olsen’s (1965) theory of collective action, this could be attributed to economic concentration in South Africa: large firms had an incentive to pursue the collective interest, albeit in the presence of free-riders and in the face of some opposition, because of the sheer size of their economic stake.

5.2 Business and the Transition

By the early 1980s (when South African growth was plummeting – see Figure 1), many of South Africa’s top business leaders and organisations were openly condemning authoritarian behaviour on the part of the government and objecting to detention without trial of trade unionists. The township revolt of 1984, and declaration of a State of Emergency in 1985, and the 1988 black consumer boycott helped foster a sense throughout the business community that to operate successfully as a business meant changing the political system in fundamental ways (Nattrass, 1997: 27). A set of secret meetings between the ANC and the South African business elite took place outside South Africa in parallel with secret meetings between the government and the ANC over the ANC’s economic policy and the steps needed for a negotiated transition (Van Wyk, 2009: 9-10). This was mirrored by a domestic process of consultation within the business community which lead to more active engagement with opposition leaders inside South Africa (Handley, 2008: 53-4). Chris Ball, the managing director of First National Bank, authorised the funding of a newspaper advert in 1987 calling for the unbanning of the ANC – resulting in a major row with government (ibid: 54).

In August 1988, the CBM was formed by representatives of progressive organisations and business people to work together towards a ‘fair and just society and a successful economy in a united non-racial democracy’ (quouted in Lee, 1989: 42). The
CBM actively sought alliances with popular leaders (many of whom were on the run from the police) and attempted to guide the South African business community along the path of political transformation (see e.g. CBM, 1993). It became an important progressive voice for business and one which the ANC and its allies consulted during 1993 over its emerging ‘Reconstruction and Development Programme’ (Turok, 2008: 89).

According to Douwes-Dekker (1995: 45) both the Urban Foundation and the more radical CBM (which merged in 1994 to form the National Business Initiative) were able to act quickly as they were not ‘encumbered by mandating’ and had the resources to be effective. These resources, in turn, came from the major corporations, whose power was explicitly recognised by Mandela when he requested that their chief executives provide him with briefings during the transition. This group of 15 chief executives became known as ‘Brenthurst Group’, named after Harry Oppenheimer’s house where they met. Their power as large individual corporatations was explicitly acknowledged by a senior executive who said that business organisations were weakened by the need to seek consensus, whereas ‘when you speak as an individual of substance to somebody else of substance, you can be more frank’ (quoted in Lee, 1989: 55).

The political sea-change in South Africa during the late 1980s and early 1990s spawned a series of regional tripartite forums and the National Economic Forum (the predecessor of Nedlac). Some of these arose out of wage negotiations with black trade unions, notably the in the motor and tire industries which resulted in the creation of the National Bargaining Forum for the automobile industry (Baskin, 1991: 258-9). In other cases, the forums arose for more political reasons, i.e. to create new shared understandings between labour, business, the local state and communities about shared interests and interdependent futures. In the Eastern Cape, the CBM facilitated a process of bilateral negotiations between business and anti-apartheid activists and between labour, communities and business (Nattrass, 1997a). This resulted in the creation of a regional development forum in the early 1990s, which in turn lead to the setting up in 1995 of the Eastern Cape Socio-Economic Consultative Council (ECSECC) – a government-funded, non-government body to ‘advise and assist the provincial government to achieve an integrated development strategy for the province and its constituent regions’.27 One of its early initiatives was the Project Management Task Team which mobilised private sector resources (largely in the form of seconded advisors) to re-establish local government infrastructure in the old Bantustan area of the Transkei. Although this initiative was controversial (in that there were complaints from NGOs and labour about consultants doing the job of government (Nattrass, 1997a)) it was an important early example of business seeking to assist building capacity within government.

This regional-level initiative was, however, less successful at forging trusting relations between business and labour. Whereas business in the Eastern Cape wanted organised labour to ‘put the region first’, i.e. to negotiate regionally-specific wages and not to participate in national strikes, this was resisted by organised labour. When labour participated in the 1996 national stay-away, the entire business caucus pulled out of ECSECC. Organised labour made it clear that wages were never on the development agenda, and that the role of ECSECC was to help the new government implement the Reconstruction and Development Program. Over time, the ECSECC gradually evolved into an information clearing house and facilitator of

government funded summits (talk-shops). Although annual reports still speak a discourse of facilitating social dialogue and fostering growth coalitions (e.g. ECSECC Annual Report for 2006/7: 15), there is little evidence of any serious discussion of trade-offs and compromises. The possibility that ECSECC could form the basis of a broader developmental coalition which involved labour and business working together to protect profits was quietly shelved in favour of a more nebulous notion of government building a ‘partnership’ with ‘the people’ to tackle poverty in a wholly undefined way (see *ibid:* 8). Concrete bargains, such as the ‘Port Elizabeth Initiative for the Employed’ (in which organised labour and business agreed to pay-roll deductions for mortgages and the local state released land for housing) were more successfully forged at local level between large firms, their workers and the municipality (Nattrass, 1997a).

Despite the difficulties which were already being experienced in regional social accord processes by the mid 1990s, there was a strong impetus to build peak-level bargaining institutions in order to resolve national-level issues. Starting in 1990 with the ‘Laboria Minute’, organised business and labour agreed, in principle, to set up a forum to discuss the impact of labour relations on the economy – although organised business subsequently interpreted this more broadly to include all socio-economic policy (Parsons, 2007: 6). Government eventually agreed to set up such a forum – the National Economic Forum – in 1992. Great hopes were raised about its potential, with the then Minister of Finance, Derek Keys, referring to it as the ‘golden triangle’ of business, labour and government (*ibid:* 7). But during the transitional period, the main function of the NEF was to deal with the threat of a civil war, and to provide a forum to build trust and to ensure the implementation and success of the ‘National Peace Accord’ (*ibid:* 8).

The Peace Accord was probably the crowning achievement of the CBM. Given the lack of legitimacy of the apartheid government during the late 1980s and early 1990s, it was not in a position to act as an honest broker to quell the political violence that was threatening the transition to democracy. The CBM was able to play the role of facilitator, and in 1991 was able to get all the parties to the conflict (notably the ANC and the Inkhata Freedom Party) to the table at the ‘National Peace Convention’ whose outcome was the National Peace Accord (Ball *et al*., 1998; Spies, 2002). But while this helped promote growth by stabilising the political environment, this was not a growth coalition in the making in any meaningful sense.

According to Bobby Godsell, the Peace Accord was a product of its time and the result of the people involved taking ‘extraordinary steps’ to resolve the situation. He says it worked because people were there as concerned citizens rather than as corporatist entities.28 But according to Lomin Saayman, the spokesman for Nedlac between 1994 and 1998, it also encouraged business and policy makers to believe that similar success could be achieved in post-democratic transition South Africa if a more formal institutional arrangement was set up.29

5.3 Nedlac and SBRs in Post-Apartheid South Africa

Soon after the elections of 1994, business and labour met with a number of cabinet members to formalise the emerging structures of institutionalised social dialogue.

---

28 Interview 16 October 2008.
29 Interview 24 May 2008.
The result was Nedlac, established by the Nedlac Act No.35 of 1994; one of the first pieces of legislation passed by the new parliament. Created as a merger of the NEF and the old National Manpower Commission, Nedlac was designed to be a ‘major instrument of post-conflict rehabilitation’ and to ‘inaugurate a new era of inclusive consensus-seeking and ultimately decision-making in the economic and social arenas’ (Parsons, 2007: 9). The fact that key CBM people (notably Debra Marsden) formed the part of the first Nedlac Secretariat, speaks volumes about the roots and character of Nedlac.

The development of Nedlac and South Africa’s re-entry into international organisations such as the International Organisation of Employers and the International Labour Organisation resulted in new impetus for the creation of umbrella business organisations (Nattrass, 1997: 27). In 1994, Business South Africa (BSA) was formed to represent South Africa at the International Organisation of Employers conference in 1994, and it subsequently went on to represent business in Nedlac. BSA claimed to represent, through its member organisations, 80-85% of employers employing more than 90% of employees in the formal private sector (Nattrass, 1997: 27). However, this unity was fragile. Sectoral fault-lines remained evident and the black business organisations were divided – notably between Fabcos and Nafcoc. There was also tension between organised white and black business. Within a year, Nafcoc had split from BSA, resulting in an unsatisfactory sharing of the convenorship of business in Nedlac between Nafcoc and BSA. It took eight years before a new umbrella body – BUSA – could be created to provide a home successfully for black and white business.

But this unity remained fragile and at times paper-thin. The fact that BEE benefitted black businesses specifically meant that black and white business faced very different incentives and opportunities in their dealings with the state. Furthermore, the fact that ‘black business’, like the black population, spans the entire income distribution, renders suspect the very notion of a united black business voice. Thus, Nafcoc, once headed by Patrice Matsepe, the richest black man in South Africa (and one of the richest men in the world), was also home to the Zanokhanyo Retailers Association – an organisation of spaza shopkeepers infamous for sending threatening letters to Somali shopkeepers telling them to close their shops and leave.\(^\text{30}\) The letter was apparently sent on official letterhead which spelled out that the association was a member of Nafcoc. That this occurred within months of the xenophobic violence which tore through the country, and was condemned by the UN High Commission on Refugees, rendered the incident especially worrying – and embarrassing for Nafcoc, but the organisation was paralysed. The provincial leadership of Nafcoc attempted to distance itself from the Zanokhanyo Retailers Association, saying it was not a legitimate member, but the Association responded saying that it was the provincial leadership of Nafcoc that was illegitimate. The national Nafcoc office remained silent and in the end it was the City of Cape Town which persuaded the Association to ‘suspend’ its demand for the closure of Somali shops.\(^\text{31}\)

That black business organisations stand in a very different relationship to the post-apartheid state than other businesses was illustrated recently by Nafcoc’s angry rejection of the 2008 high court ruling that Chinese South Africans (who were citizens prior to 1994) should qualify as black under the BEE legislation. The president of Nafcoc questioned the justification for this, saying that the BEE cake was

\(^{30}\) Cape Argus, September 5, 2008; Cape Times, September 5, 2008.
\(^{31}\) Cape Times, 12 September, 2008.
'too small to share' and asking 'where does it end? What about the Italians and the Portugese? Are we going to broaden the definition to include them?'. Given the strong incentives facing black business and organisations like Nafcoc to defend racially restrictive government largesse, the chances of a unified business stance is eroded significantly. There is, in other words, a strong tension between the objectives of BEE (racial transformation of ownership through preferential policies) and forging the kind of business unity that is required for a genuine social accord or tripartite consensus necessary for the emergence of a development coalition.

When Nedlac started operations in February 1995, it had the grand objective of seeking consensus and agreements between mandated parties on social and economic policy and to consider all proposed labour legislation and social and economic policies before they went to parliament (Parsons, 2007: 10). Although Raymond Parsons (the Nedlac Business convenor) argues that the parties to Nedlac did not see the institution as superseding parliament, difficulties soon arose in the relationship between Nedlac and Parliament with the perception being that there were 'two parliaments' (ibid: 10-11). But very soon government started reasserting its prerogative to make and implement policy without having to go through its 'social partners' and individual cabinet ministers started pushing their own economic policy agendas without taking advantage of the potential for Nedlac to build consensus around them.

The new Minister of Labour, Tito Mboweni, started the ball rolling with proposed sweeping changes to the South African labour market. He drew up a draft Labour Relations Act (LRA) and Basic Conditions of Employment Act (BCEA) and set up a Presidential Labour Market Commission to make recommendations. The first task that faced Nedlac was thus to negotiate the LRA, which it did – despite very tight deadlines being imposed by the Minister of Labour. However, the both pieces of legislation were considered in isolation of other policies and were introduced before the Labour Market Commission reported. This undermined the possibility for a co-ordinated an integrated growth strategy. Notably, in 1996, the National Treasury produced its GEAR policy which sketched out a program of structural adjustment including increased labour-market flexibility. This, however, was undermined by the BCEA which increased the cost of employing labour. The LRA, which was negotiated successfully in Nedlac, was done so before the Labour Market Commission had considered the overall impact on the labour market. Whereas the LRA endorsed the existing system of industrial level bargaining which required the Minister of Labour to extend collective agreements to non-parties, the Labour Market Commission recommended that this be made more discretionary (LMC, 2006). This recommendation, however, went nowhere as a result of fierce opposition to it from organised labour (Parsons, 2007: 12).

Looking back at this frenetic period of policy making during the mid 1990s, it is clear that Nedlac had neither the opportunity nor the capacity to provide the ideal co-ordinated, concerted and consensus-building role allocated to it by its founding legislation. The labour legislation placed on its agenda had not been adequately reviewed within government or by the Labour Market Commission and both touched on issues of great importance to labour and business. The chances of conflict were

33 The Basic Conditions of Employment Act provided for longer annual and family leave (thus increasing the indirect cost of employing labour) and reduced hours of work (thus increasing hourly fixed costs). The over-time premium was also increased, with the result that over-time labour costs rose to two and a half times that in comparable middle-income countries (Barker, 1999: 19).
thus immense – and of agreements that served the interests of organised labour and big business (which dominated business organisation and representation in Nedlac) rather than smaller, more labour-intensive business operating in less unionised sectors. Thus, the agreement to extend collective agreements to non parties served big business and unions, but not the interests of the unemployed and employers who relied on lower wage, labour-intensive technologies (Moll, 1996).

Instead of becoming a forum for social dialogue over growth strategy, Nedlac had, by the mid-1990s, become a forum in which organised labour acted, and was seen to act, aggressively in its own interests. Trade unions had become politically and institutionally very powerful and their close connections with the ANC and ideological commitment to socialism (albeit rather ill-defined) put business on the defensive. The failure of Nedlac to provide an effective forum for concertation was exacerbated by the Minister of Labour’s pre-emptive approach and what effectively became a legislative policy arms race between the Ministry of Labour and the Treasury over the institutional form of the post-apartheid economy. Labour won the battle (with the LRA and the BCEA) but effectively lost the war. The Treasury published GEAR in 1996 without having taken it to Nedlac. As Parsons observes, the sidelining of Nedlac in this way put ‘considerable strain on the Nedlac process’ (2007: 13). The fact that the Ministry of Trade and Industry proceeded on a path of aggressive trade liberalisation – also without consulting Nedlac – effectively put an end to the possibility of Nedlac being the centre-piece of a new consensus-driven path to economic growth. It thus also put paid to the possibility of Nedlac forming the institutional basis for an explicit growth or development coalition.

Was this a bad policy choice, or just an outcome of political imbalances? This is difficult to judge with any degree of certainty. However, the fact that no single minister prioritised Nedlac, and all had an incentive to pursue their own agendas without hindrance from other parties, inevitably consigned Nedlac to marginalisation and ultimately policy obscurity. Ministerial authority reigned supreme, thereby rendering bargaining efforts in Nedlac effectively pointless. This was illustrated most clearly by the Minister of Health’s rejection of an AIDS treatment plan negotiated in Nedlac. This process, which had been initiated by a request by the Treatment Action Campaign and Cosatu, lead to the setting up of a special Nedlac HIV/AIDS task team with the objective of forging a ‘Framework Agreement for a National Treatment Plan’ by the end of 2002. When representatives from business, labour, government and Nedlac’s community sector finally came up with an agreed plan, the Health Minister refused to sign it on the grounds that ‘policy development on AIDS cannot be dictated by agreements we enter into with our social partners’ (Nattrass, 2007: 108). This sent a very strong message that Nedlac lacked real power to affect policy, and hence that efforts to formulate policy within Nedlac were a waste of time.

Given that individual government ministers pursued their own agendas, and given the absence of any attempt – either within the state or within Nedlac – to foster policy co-ordination and coherence, the result was, inevitably, that business would choose to lobby individual government officials directly. This, as Cronin, the leading intellectual of the South African Communist Party, puts it, resulted in the ascendance of: ‘the lobbying route, back-room quiet diplomacy, elite-bargained municipal demarcations, corporate capture of line departments, tender-award favouritism, and multibillion-rand white elephant projects’ (2008a).

Big business steadily lost interest in Nedlac, sending relatively junior representatives to Nedlac events and otherwise choosing to engage directly with the state.
Established white business enjoyed cordial relations with the new government. Fiscal policy was widely regarded as sound – no doubt helped by the fact that the first two Ministers of Finance in post-apartheid South Africa were businessmen (Derek Keys, former head of mining conglomerate Gencor, and a banker, Chris Leibenberg). The powerful big corporates in particular enjoyed privileged access to the new government, and no doubt found their close informal relationship with Mandela much more cordial and productive than the formal institutional context of Nedlac.

According to Waldmeier:
‘[Mandela] constantly sought the views of international businessmen and bankers on South Africa’s future. And he cultivated close relationships with top local businessmen – he spent holidays with the head of one of the country’s leading mining families, the late Clive Menell; he entertained at the home of one of Johannesburg’s most ostentatious businessmen, insurance magnate Douw Steyn, where guests were met in the driveway with champagne on silver salvers; and he dined regularly with Anglo patriarch Harry Oppenheimer.’ (1994: 256-7)

Oppenheimer and others reportedly claimed some credit for dissuading Mandela from saying ‘silly things’ and ‘economic fantasies’ (ibid). But if so, it came at a price. Mandela famously made unrefusable requests to top businessmen for substantial contributions to the ANC’s election campaign...

Over time, Nedlac was transformed into a much narrower forum discussing predominantly labour-related issues; a form of limping and limited corporatism. A key function became its management of the processes outlined in Section 77 of the Labour Relations Act which gives workers the right to take part in protest action to promote or defend their socio-economic interest and be protected against dismissal and other disciplinary action. All Section 77 applications came from organised labour, most involved attempts to prevent job losses, very few were resolved, and most were turned down on the basis that Nedlac was not the appropriate body for dealing with such matters. It is a consistent pattern for organised labour in South Africa to de-link wage bargaining with possible employment losses – and then to pursue attempts to prevent job losses in other forums – such as Section 77 appeals. These, however, have been unsuccessful.

One of the remaining ways in which Nedlac tries to foster agreement between the ‘social partners’ on issues like job creation is through high level ‘summits’ involving the ‘key stakeholders’. The first of these was the Jobs Summit, held on 30 October 1998. The agreement included calls for more sector summits – especially in sectors which have high potentials to create jobs – e.g housing and tourism, a ‘buy South Africa’ campaign, strengthening customs and exercise (to stem ‘illegal’ imports), a mentorship scheme for small business and calls to link further tariff reductions to additional support mechanisms. There was also agreement to develop a ‘Social Plan’ which would try and assist firms not to retrench workers and to help retrain those...

34 Section 77 gives Nedlac the task of bringing the parties together to attempt to resolve the reasons for the protest action. In considering whether a notice is valid under Section 77, one of the most important factors is whether it relates to a socio-economic interest, rather than a mutual interest. Matters relating to public policy are typically accepted as valid. Matters of mutual interest (generally wages and conditions of service) between employees and employers do not fall within the scope of Section 77. Disputes on these interests are meant to be dealt with through internal procedures, at a bargaining council, or through the Commission for Conciliation, Mediation and Arbitration (CCMA). Information from: http://www.nedlac.org.za/
35 Information is available on www.nedlac.org.za (under Section 77 notices).
workers who were unavoidably retrenched. However, in a follow up report, it was noted that the status of this agreement was unclear – and that relatively few jobs had been saved.

This was followed in June 2003 with the Growth and Development Summit. This was in response to President Mbeki’s call to address the investment, employment and poverty challenges facing South Africa. It echoed the themes of the earlier Jobs Summit and identified the following ‘national priorities for collaborative action’: promoting and mobilising investment and creating decent work for all; ensuring economic empowerment for all, especially black people, workers, people with disabilities, women and youth; eradicating poverty and addressing the legacy of under-development; strategically engaging globalisation to the best advantage of the country.

Like the Jobs Summit, this essentially comprised a wish-list that was entirely innocent of trade-offs and potential conflicts of interest between the objectives. The agreed actions to facilitate the above included: Public investment initiatives (predominantly infrastructure – and through government investment and public-private partnerships. Labour-based construction methods favoured – but no discussion of wages); Expanded public works programmes (to provide short-term jobs with some training which will help build social cohesion); Sector partnerships and strategies (to promote ‘inclusivity’ and communication – not to ‘finalize sector processes’); Local procurement (to support small business and grow the local economy); Small enterprise promotion; Support for co-operatives; and Jobs impact and monitoring (inter alia to reach consensus to minimise retrenchments).

The summit agreement also included commitments to training (registering learnerships, supporting SETAs etc), broad based BEE (including more jobs in the formal sector), more investment (though this section is vague and has no mention of the link between profitability and investment). There is also mention of local level ‘people centred’ development – though again, this reads like a wish-list sprinkled with trendy development discourse – but no clear mechanisms for addressing the trade-offs and challenges.

Although there have been calls for sector summits, it appears that only two have been held (the financial sector, and the information and communications technology sector). This may well be because it is unclear what these summits would achieve outside of the framework of the existing sector-based industrial bargaining machinery. But this does not mean that Nedlac has achieved nothing. Each year it produces an annual report to parliament detailing the various policy documents (many relating to industrial policy) and important socio-economic legislation (ranging from consumer protection, to energy and electricity policy to broad based BEE) that have been discussed and accepted in Nedlac. However, none of these were able to make a dent in the very large and pressing problems of growth and employment creation.

As a consequence, by 2005 there were reports of dissatisfaction on the part of all the stakeholders with Nedlac. According to the Minister of Labour (Mdladlana), the

---

problem was that neither organised labour nor organised business took Nedlac seriously: 'There has been a tendency to request ministers to attend meetings at Nedlac, but when they go there most labour and business bosses are not there. Often if there is anyone present from those constituencies, it is junior officials with no power to make any decisions' (quoted in Letsoalo, 2005). However, Bheki Sibiya, the chief executive of BUSA retorted that 'The truth is that when ministers are required to attend crucial meetings in Nedlac, they do not come. There are very few Directors General attending meetings at Nedlac. Within the government, Nedlac is no longer taken seriously.' (quoted loc. cit).

This has undermined the potential for reasonable engagement between government, business and labour over a whole range of policy matters. For example, the South African Reserve Bank Governor (and one-time Minister of Labour) Tito Mboweni took great exception in July 2008 to commentary from Investec Asset Management about the way the official inflation rate was calculated by the government statistics agency, StatsSA. His angry comments on radio and in the print media prompted the Sunday Times to editorialise that Mboweni should stop behaving 'like a trade unionist by firing off uninformed accusation' and instead engage 'in rational discussion with those who hold a different view' (Sunday Times, 27 July 2008). The trade union grouping Solidarity also entered the fray claiming that Investec’s comments about inflation had been designed to manipulate its share price. If Nedlac had worked as it was supposed to work, this issue would presumably have been discussed by business, labour and government in the economic policy chamber with a view to iron out differences and deal with misunderstandings. That this unseemly display of uncooperative and distrusting relations between government and labour on the one hand, and business on the other, speaks volumes about the absence of an institutionally supported growth coalition in post-apartheid South Africa.

According to Lomin Saayman, a key reason for why Nedlac failed – and failed early on – was lack of commitment from government – which he says was born out of a conflict of interest and personality between Tito Mboweni (then Minister of Labour) and Trevor Manual (subsequently Minister of Finance). He said that the Nedlac secretariat both had too much power (and threatened the government ministers) and too little – in that the secretariat could not manage the power struggle between the Ministry of Labour and the Treasury. Bobby Godsell concurred, saying that government agreed to set up Nedlac during the ‘honey-moon’ period of the new government when it believed that it was easy and useful in terms of governance to work with civil society and labour. However, once negotiations started to impose additional work and requirements, government lost interest. He said that GEAR was the turning point – it was a statement by government that it was setting the rules of the game – not negotiating them. Jayendra Naidoo also agrees, but highlights also that organised labour was never comfortable with the tripartite aspect of Nedlac, preferring to have bilaterals with business over wages/working conditions and bilaterals with its alliance partner (ANC) over policy.

That Labour had greater incentives to deal with the ANC directly (rather than compromise in tripartite negotiations involving business) is clear. However, whether Labour’s lack of commitment was due to an inherent suspicion of tripartism, or

---

41 Discussion 16 October 2008.
42 Discussion 16 October 2008.
whether it was concerned to counter real or suspected bilaterals between government and business is moot. According to a representative from the Presidency (during Mbeki’s term of office), Nedlac failed because it was so fearful that business was seeking, through the back-door, to undermine hard-won victories and gains in the labour market – as business was believed to have done with regard to GEAR.43

5.4 The Power of Business?

Some conclude from the fact that the ANC implemented business-friendly policies after 1994 that business must have had, and exercised, power to affect this change away from its earlier pro-nationalisation stance (see e.g. Van Wyk, 2009). After all, one of the key issues raised by the business elite in its meetings with the exiled ANC in the 1980s was nationalisation of monopoly industry (Handley, 2008: 59). This lends credence to the idea that some kind of ‘elite pact’ must have taken place between the ANC and white business which smoothed the way for political transition but at the cost of leaving the economic power structure untransformed (e.g. Bond, 2000). A more cynical version of this argues that the African nationalists within the ANC were more than happy to do so because they were not that committed to socialism in the first place and wanted to make money themselves (e.g. McKinley, 1997). The fact that the head of Nafcoc, Sam Motsuenyane, also met with the ANC in Lusaka in the 1980s, and returned to report an ‘astonishing’ degree of agreement between the ANC and his organisation (Callinicos, in Handley, 2008: 59), which at the time was promoting the idea of greater black ownership, suggests that there may well have been greater support in the ANC for capitalism than suggested by the ‘revolution-betrayed’ version of changing ANC economic policy.

But even committed socialists within the ANC had to face the challenges of a collapsed socialist alternative in Eastern Europe. As Ramaphosa notes, reflecting on the change in ANC economic thinking in the early 1990s:

‘It was less to do with our own understanding of economic policy at the time, but more in line with the broad thinking internationally (about) whether one could still pursue those naked socialist-type solutions of blanket nationalisation.

Many people were beginning to feel more and more comfortable with a mixed type of economy’ (quoted in Green, 2008: 339).

Mandela, too, learned quickly about the changing international climate. In 1991, when he attended the Davos conference, he met with Li Peng, the new premier of China. According to Tito Mboweni, who accompanied Mandela on that trip, when the conversation turned to nationalisation, Li Peng said to Mandela ‘I don’t understand why you are talking about nationalisation. You’re not even a communist party. I am the leader of the communist party in China and I’m talking privatisation’. Mandela subsequently repeated this conversation at every ANC discussion on the economy. He also allowed Mboweni to tone down his speech to the Davos conference in order to assure investors that their investments would not be endangered by nationalisation (Green, 2008: 345-6).

Although the move away from nationalisation was understandable given the changed international context, there remains strong suspicion that business had something to do with the shift to ‘neoliberalism’ that supposedly took place in 1996 with the adoption of the GEAR policy. However, this argument fails to account for the decidedly non-neoliberal character of labour market and welfare policies. It also

43 Discussion 21 January 2009.
ignores other, more plausible explanations for the adoption of orthodox fiscal policy in 1996, notably that there was an obvious and pressing need for structural adjustment given the size of the debt and genuine concern on the part of the Finance Minister to avoid macroeconomic populism. True, individual business people lobbied government about economic policy and talked directly to government through the Brenthurst Group. The business community supported and business-sponsored think tanks, like the Centre for Development and Enterprise, contributed articles and held seminars on economic policy (Handley, 2008: 75; Bond 2000). But this does not mean that these activities were crucial in shaping ANC economic policy. Other learning experiences, such as short courses and executive training opportunities for ANC leaders (including Trevor Manuel) at international financial institutions, business schools and economic policy think tanks also abounded (Handley, 2008: 75-6). These, especially, would have alerted the ANC leadership to what was or was not advisable economic policy for attracting foreign investment. This, of course, points to the power of capital, but in an indirect systemic sense. As Turok notes wryly, even among committed socialists in the ANC ‘there has clearly been a calculated acceptance that conservative orthodoxy was inescapable to avoid massive retaliation by international and domestic capital’ (2008: 12).

Domestic economic trends would have brought the point home even more forcefully. Although there had been calls by ANC-aligned economists in the early 1990s for more expansionary macroeconomic policies (e.g. MERG, 1993), this option was rendered unworkable by the sharp increase in the government deficit (from 1.5% of GDP in 1990 to 7.3% in 1993) that took place during the transitional period (see Figure 5). A year earlier, Trevor Manuel had participated in a high-level ‘scenario planning’ exercise in which different macroeconomic futures were constructed. This included the Icarus scenario depicting macroeconomic collapse following an unsustainable rise in expenditure. At that meeting, Derek Keys, the Finance Minister (previously Chairman of Gencor) showed him a set of power-point slides by Rudolf Gouws (from Rand Merchant Bank) depicting in graphic detail how South Africa was sliding into a debt trap (Green, 2008: 380-1). This, together with the ‘Icarus scenario’ reportedly had a lasting impression on Manuel (ibid: 367).

The fact that the message was conveyed by Gouws and Keys – both senior business leaders – pales into insignificance against the undisputable power of the message itself. South Africa, literally, could not afford Keynesian macroeconomic expansion. To do anything other than get the debt under control and allay investor nerves would have been pure folly. Later, when Manuel was later given three worthless Zairean banknotes (for 5 million Zaires each) he kept one and gave one to Thabo Mbeki and one to Tito Mboweni. According to Manuel’s biographer:

“He didn’t know then that the notes would be in the hands of the future president, the future governor of the Reserve Bank, and the future finance minister. They were all ANC ‘functionaries’ as he describe them, at the time. But the notes served, and continue to serve, as a salutary reminder of what can happen when an accelerating deficit coupled with a lack of accountability takes hold of a country” (Green, 2008: 372).

By the time the ANC gained full control of the government in 1996, it faced not only the challenge of managing a dangerously high level of debt, but also the challenge of dealing with substantial exchange rate instability (Figure 5). The GEAR policy of 1996 was designed to restore macroeconomic balance. But the pre-emptory way that it was introduced by Treasury, coupled with deep and ongoing suspicions that the IMF and the World Bank must have had something to do with this shift to orthodox fiscal
policies, resulted in deep bitterness and distrust between ANC economic policy makers, labour and other left aligned critics (Turok, 2008: 117).

GEAR was intended to calm private sector nerves by projecting a scenario in which conservative fiscal policies laid the basis for a reduction in government debt and an increase in investment and growth (DOF, 1996). It also spelled out a set of complementary trade policies (to open the economy further and boost exports) and proposed some limited ‘regulated flexibility’ within the labour market in an attempt to protect employment during the necessary adjustment. According to Hirsch, the ANC, confident that the ‘liberation political dividend’ would ensure continuing electoral success, felt no need to introduce populist but short-sighted economic policies, and could instead look to growth in the medium-term (2005: 4-6, 66-9).

The gamble that the ANC government took with GEAR was that it would send the right ‘signals’ to private sector investors, thereby sparking off sufficiently large investments that this would become a dynamic driver of growth (Nattrass, 1996). This, after all, had been the message of the ill-fated ‘Growth for All’ policy document of the South Africa Foundation (a grouping of the top conglomerates). Growth for All, which proposed a policy of fiscal rectitude and labour market flexibility (see discussion in Nattrass 1996) was apparently well-received by government when it was presented to them in a closed seminar, but because its blunt style and position on labour-market flexibility so offended organised labour, the government was forced to distance itself from it (Handley, 2008: 88). Even so, the suspicion remains, given the similarities between GEAR and Growth for All, that business interests must have had a role in GEAR’s formulation.

But even if business had managed to influence GEAR, this was only a document. In practice, organised labour was able to block the proposed labour market reforms (and indeed, introduce new rigidities into the labour market) – thereby illustrating that the power of business to shape government policy was certainly mediated and constrained by the close relationship between labour and government. Certainly it seems that the Growth for All document lead to a cooling of relations with government, especially once Mbeki became president in 1997. His distrust of white business, the subsequent promotion of BEE and the TRC hearings have all been fingered as contributing to the cooling of relations between business and government in the late 1990s (Handley, 2008: 88-9).

According to Gevisser, the cosy relationship between the white captains of industry and the ANC came to an end at an evening function in February 1997 convened by the South Africa Foundation (a grouping of the large corporations) in the executive dining room of Standard Bank. At the event, Conrad Strauss (head of Standard Bank and the South Africa Foundation) offered to help the government with its ‘capacity problems’ by asking SAF members to ‘second a number of their senior executives as part of their commitment to transformation’. Mbeki, however, did not respond, and appeared offended – presumably at the implication that his government needed help. Despite agreeing to a follow up meeting, the ‘line went dead’ and on two occasions Mbeki’s office confirmed a meeting date and then cancelled at the last minute. Strauss reacted by asking Mbeki’s personal assistant how Mbeki could run the country if he couldn’t manage his diary. This appears to have been taken as further evidence of racist assumptions about the lack of capacity in government (Gevisser, 2007: 686-7).
Gevisser argues that this ended any ‘special’ relationship with the white private sector – such as that between Mandela, the Oppenheims and other members of the Brenthurst Group. In 1998, government’s attitudes towards the economic elite hardened further after the Rand depreciated (Figure 5), initially because of contagion from the Asian crisis, but subsequently also after it was announced that the then Reserve Bank governor, Chris Stals, was going to resign and be replaced with Tito Mboweni, the then Minister of Labour. Handley argues that the market’s reaction ‘stung’ the ANC leadership which regarded it as ‘nothing less than racist’ given that Trevor Manuel’s team was doing a good job getting the deficit and debt under control (2008: 90).

The white corporate sector thus found itself frozen out of contact with the government and regarded with increasing suspicion – the goodwill that had been garnered during the transition to democracy completely lost. Thus in September 1998 organised business, lead by the large corporates, launched the ‘Business Trust’. In line with the shift in power to black business, the Business Trust was headed by Saki Macozoma, a black business man and member of the ANC’s National Executive Council. The trust comprised a pledge to raise R1 billion for job creation and education As Handley argues:

‘Business clearly felt the need to demonstrate its commitment to communication with the government. In return for funding the Business Trust, business wanted access to the president. The Trust delivered: Mbeki created a working group that would connect government – and the president – directly with big business’ (2008: 90-1).

By 2008, 140 companies had collectively donated R1.2 billion to the Business Trust.44 This became the model for SBRs under the Mbeki administration. As Gevisser points out:

“The consultative forums of the Business Trust were the germ of Mbeki’s approach to consultation during his presidency: the ‘working groups’ that he convened, at which he would lead structured, regular discussion between members of the government and members of the private sector or civil society. The logic driving the Business Trust carried through: you bought yourself a place at the Big Business Working Group by contributing to the Trust” (Gevisser, 2007: 688).

Mbeki also convened an international investment council which included, inter alia, the chief executive officers of Unilever, Ashanti Goldfields, Petronas and DaimlerChrysler, as well as the international financier George Soros (Gumede 2002: 201-3). However, it remains unclear what difference this made to policy, and what power business actually had to change things as these proceedings, as with the domestic working groups, were informal in nature.

The Business Trust depicts itself, in sporting metaphor, as playing a ‘game’ to expand markets, enhance trust, attack poverty and unemployment and build a prosperous nation involving a ‘team’ of South Africans ‘leading corporations’ and government departments under a ‘captaincy’ of ‘a board of cabinet ministers and heads of SA corporations’.45 Key activities include promoting tourism enterprise (a company has been formed to do this) supporting business process outsourcing, training initiatives, infrastructure development and supporting the governments public works program. With regard to the latter, the Business Trust works with

44 Information on the Business Trust is available on: http://www.btrust.org.za/
municipalities to provide technical and design assistance, including new ways of providing for labour-intensive processes. It thus seems that by bringing real money to the table, big business has succeeded in channeling capacity and technical support to government in a way that government no longer finds offensive. As an adviser to Mbeki’s office of the Presidency noted in an interview, ‘It is very difficult for the private sector to help government and government is touchy about offers to help’. The Business Trust seems to have got around that problem by combining technical assistance with real resources.

In so doing, it has created a way for business to address its most important concern about government policy, namely lack of capacity. Business concerns with government policy have changed significantly over the past two decades. Initially, business was worried about the exile ANC policies towards nationalisation. These fears, however, were alleviated by the evolution of ANC economic policy in the early 1990s. Business concern then switched to macroeconomic policy, but these fears too were alleviated by the orthodox fiscal and monetary policies followed by Trevor Manuel and Tito Mboweni respectively. Interviews with business leaders today reveals that business remains concerned about high labour costs, unemployment, crime and ongoing capacity constraints in government.

How should we think about the relationship between state and business in post-apartheid South Africa? According to Taylor (2007), there is a relatively harmonious strong business-state ‘coalition’ characterised by a relatively weak state, and an institutionally strong business sector and the state’s increasing dependence on business in a liberalised environment. Carmody (2002) similarly argues that state weakness in the face of capital is a key characteristic of the post-apartheid era and that the state’s embrace of neo-liberalism was motivated in part by its weakness with respect to capital and labour in that it used ‘the global market to discipline capital and labour, rather than being able to discipline them on its own to achieve developmental goals’ (2002: 261).

Yet the institutional power of capital seems more contested and fragmented than suggested by such analysis. Also, one wonders what the ‘growth coalition’ Taylor imagines actually comprises of. Institutional mechanisms for transparent SBRs appear to have given way to murkier forms of engagement where big business ‘buys a ticket at the table’ or, in the case of black business, has privileged access to government contracts. It seems more likely that SBRs in South Africa span the full spectrum – from development coalitions, such as those between business and government departments and municipalities support through the Business Trust – to classic neo-patrimonial and corrupt deals, as evidenced by the Arms Deal. This, of course, may be true in other countries too – thereby raising further question-marks about the usefulness of attributing growth paths to ‘development coalitions’, or of characterising entire economies as a ‘variety’ of capitalism or as having some over-arching form of SBR.

5.5 Corruption

South African newspapers regularly carry stories and exposés of corruption, where tender processes are abused and contracts awarded to individuals close to the state.

47 We are grateful to Adrian Leftwitch for pointing this out.
(notably with regard to telecommunications contracts, oil sales and the arms deal).
Indeed, Robinson and Brummer write, ‘the murky relationship between money and politics has been at the heart of almost every major scandal faced by political parties and the government since 1994’ (2006: 2).

In particular, the arms deal,\(^{48}\) initially thought to be worth R30 billion but now estimated to be substantially more; probably in the region of R47 – R70 billion (confidential report, January 2009), amounted to a massive waste of tax-payers money and source of enrichment for a few. Recent reports reveal how government-linked businessmen (notably Fana Hlongwane and Mo and Schabir Shaik) channeled arms deal bribes worth R1.73 billion in today’s prices from British arms companies.\(^{49}\) Schabir Shaik was found guilty in 2005 on two counts of fraud and corruption for his profiteering in the arms deal through his company Nkobi Holdings (of which the ANC had a 10% stake). Jacob Zuma (now president) was depicted by the judge as having a ‘generally corrupt’ relationship with Shaik. Subsequent attempts to prosecute Zuma failed.

The arms deal is one of the most contentious issues of post-apartheid South Africa. It has resulted in civil society mobilisation (through the Social Justice Coalition) in favour of full disclosure, in resignations from parliament by disgusted ANC MPs (Andrew Feinstein and Pregs Govender), and in unsuccessful public interest law suits by Terry Crawford-Brown against Trevor Manuel for authorising the deal. Feinstein, in a subsequent expose (2007), describes how the parliamentary oversight committee was blocked from investigating the arms deal, especially the contested decision to by Hawk/Grippen fighter jets at inflated prices; jets which were not necessary and subsequently hardly used by the military (Feinstein, 2007: 232) Manuel’s biographer essentially ducks the issue by merely noting Manuel’s ‘discomfort’ with the deal and his failure to contest it, (Green, 2008: 471-78) despite the fact that it made as seriously negative dent on government’s capacity to spend on other, more socially valuable, areas.

One of the justifications for the arms deal was that the firms awarded the armaments contracts would deliver ‘offset’ investments – i.e. would promise to invest in other parts of the economy, thereby creating jobs. Alec Erwin, the Minister for Trade and Industry, was one of the most fervent supporters of the arms deal, supposedly because the offset deals could boost South Africa’s industrial policy (Green, 2008: 474-5; Feinstein, 2007: 232). However, if this was an incipient ‘growth coalition’ (between government and dubious arms dealers) it was pretty pathetic as most of the promised offset investments failed to occur and less than a quarter of the paltry 12,000 offset-related jobs were actually delivered (Feinstein, 2007: 232).

Arms deals are notoriously corrupt practices globally – with bribes, such as the petty bribes (a 4 x 4 motor vehicle) that got Tony Yengeni jailed briefly – being run of the mill. But what is interesting about the South African case is the role of the ANC itself in potentially benefitting (through its stake in Shaik’s Nkobi holdings to cite just one instance). The close relationship between the ANC Youth League and mining

\(^{48}\) Recent reports reveal how government-linked businessmen (notably Fana Hlongwane and the Shaik brothers) channeled arms deal bribes worth R1.73 billion in today’s prices from British arms companies (see http://www.mg.co.za/article/2008-12-05-how-arms-deal-bribes-were-paid).

\(^{49}\) [http://www.mg.co.za/article/2008-12-05-how-arms-deal-bribes-were-paid](http://www.mg.co.za/article/2008-12-05-how-arms-deal-bribes-were-paid)
magnate Brett Kebble\textsuperscript{50} in which millions of Rands were paid to Youth League members ostensibly to help identify business opportunities for Kebble, advise him on political development and BEE (\textit{Business Day}, quoted in Turok, 2008: 154) coupled with the Youth League’s and the ANC Women’s League involvement in BEE\textsuperscript{51} and other business deals involve further blurring of the Party/State/Business boundaries. That the ruling party itself participates in business deals through special companies, adds a further twist to the notion of SBRs.

Another example is the so-called ‘Oilgate’ scandal in which an investigation by the \textit{Mail and Guardian} newspaper revealed that in 2005, R11 million of public money had been channelled to the ANC ahead of the 2004 elections. This was done by state-owned PetroSA advancing R15 million to Imvume management (a BEE partner of PetroSA with close ties to the ANC) which then passed most of the money onto the ANC. The money was never recovered and PetroSA had to release another R15 million directly to the supplier (Robinson and Brummer, 2006: 12). The money was never recovered. It is an example of how government ownership of business together with BEE arrangements can feed tax payers money back to the ruling party.

The ANC has apparently also used strong-arm tactics to increase its flow of revenues. In 2003, the Johannesburg High Court awarded millions of Rands in damages to a printing company that claimed it had lost a Transnet privatisation tender because it had refused an approach from an ANC Treasury representative to hand over 15\% of its shares to the Party (bid: 13). Commenting on this and other examples, Robinson and Brummer note that this demonstrates ‘an incestuous relationship between ANC, business, parastatals, government and empowerment’ which ‘raise complex questions about the use of economic power to capture political space, and the use of political power to obtain economic benefit, whether for individual party members or for the party itself’ (2006: 13).

Handley argues that ‘individual instances of corruption are not necessary proof of anything (except perhaps that the state’s anti-corruption institutions are functioning)’ (2008: 97). However, this gives far too much credibility to state institutions and not enough to civil society – notably the independent media – for holding government to account. For example, it was the \textit{Mail and Guardian} newspaper which broke the ‘oilgate’ scandal, forcing an investigation into the issue by the Public Protector. When the Public Protector’s report turned out to be a cover-up (the flow of money to the ANC was never investigated and the newspaper’s claims were simply dismissed as unjustified speculation), the \textit{Mail and Guardian} sued the Public Protector. This resulted in a court ruling that the public protector must ‘investigate complaints that were not investigated’ and ‘re-investigate all complaints that were investigated’ and write a new report.\textsuperscript{52} How long South Africa can rely on the independent media to play this kind of role – or whether it will be effective in stemming corruption, is an open question.

State patronage, which provides the most visible and easy opportunities for corruption, has been a substantial source of enrichment for the lucky well-connected favoured few, but there are signs of growing bitterness about the limited pool of

\textsuperscript{50} Brett Kebble was subsequently murdered (a crime yet to be resolved) and his insolvent estate continued to make payments to ANC leaders (Turok, 2008: 154).

\textsuperscript{51} For example, The ANC Women’s League owns ‘Malibongwe Womens Development’ which is a major shareholder of Imuniti (a firm producing nutritional and related products – discussed in more detail later). It is listed under the BEE page of Imuniti (http://www.imuniti.co.za/about/bee.php).

\textsuperscript{52} \textit{Mail and Guardian}, 31 July – 6 August 2009: “Oilgate vindication for M&G”
opportunities. According to a self-described ‘BEE wanabee’, people linked to, or being seen as sympathetic towards, the new Congress of the People (COPE) – a breakaway party from the ANC – have been denied BEE opportunities. This suggests that the resources available for patronage are finite and being husbanded carefully. This also suggests that the potential for patronage and corruption to characterise the economy more broadly is similarly limited.

Another potential limiting factor for corruption is the strength of the South African economy which provides income earning opportunities that do not rely on politicians and officials for support. Put differently, the costs of engaging in lobbying and curry favour may not be worth it. As one businessman (from the KwaZulu-Natal sugar industry) observed when asked about state-business relations:

‘You see the usual suspects hanging out with ministers, hosting functions... These businessmen are trying to curry favour – probably to get preferential access to government contracts, or to get a politician to support a land-use application – but there are not that many..... Currying favour does not always work, and politicians rise and fall and you find yourself exposed to all sorts of additional requests (like being asked to pay for the educational costs of children of politicians). So, most businessmen in mainstream productive activity avoid having too much contact with government officials...’

5.6 Blurring the Lines between Business and Labour

Not only has there been a blurring of the line between business and the state, but there has, somewhat paradoxically, also been a blurring of the line between labour and business. Just as individual black businessmen have made use of BEE provisions to become fabulously wealthy, trade unions (and certain officials) have also participated in BEE deals using investment vehicles to invest workers’ pensions. These are typically run by trusts (on which the unions sit, but do not control) and are financed by union funds, borrowing and various internal deals with participating companies. Notable amongst these has been the Mineworkers Investment Company (owned by the National Union of Mineworkers), Kapanao ke Matla (owned by Cosatu), Sactwu Investment Group (owned by the South African Clothing and Textile Workers Union (Sactwu) and the Union Alliance Holdings (owned jointly by Cosatu and other trade union groupings. Table 4 summarises the main investment areas of these companies.

Table 4: Key Trade Union Investment Vehicles and their Investment Areas

<table>
<thead>
<tr>
<th>Investment areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kopano ke Matla</td>
</tr>
<tr>
<td>Saatchi and Saatchi (advertising), KMMR (publishing company formed by Moletsi Mbeki), Skills Development Institute to implement learnerships, opano ke Matla Financial Services, Airports Company, part of BEE consortium of Gidane (operator for the lotto), Sizwe Fishing (holds fishing quotas), Imuniti Holdings (‘natural products’ and nutrition – a company owned also by ANC Women’s League, Tambo family), various property</td>
</tr>
</tbody>
</table>

54 Discussion 21 January 2009.
55 See the following websites for more information on these companies: http://www.kopanokkm.co.za
http://www.mic.co.za http://www.mic.co.za/about/invest_strat.html
<table>
<thead>
<tr>
<th>Investment Company</th>
<th>Investment developments, Matlapeng holdings (ferrochrome producer) and Roubex Holdings (infrastructure development). <a href="http://www.kopanokkm.co.za">http://www.kopanokkm.co.za</a></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mineworkers Investment Company</td>
<td>MIC Financial Holdings, MIC Media and Technology Holdings (e.g. Primedia, Tracker Network), MIC Industrial and Retail Holdings (e.g. PBSA), MIC Food and Leisure Holdings. Participates in BEE deals in media, security, in credit management, technologies, in private equity funds, in Johnnic... (<a href="http://www.mic.co.za/about/history.html">http://www.mic.co.za/about/history.html</a>).</td>
</tr>
<tr>
<td>SACTWU Investment Group</td>
<td>Formed Hoskins Consolidated Investments (HCI) with the NUM (but NUM pulled out in 2000). HCI now owns E.tv, finance house Mettle, dairy company Clover, Tsogo Sun and Johnnic (<a href="http://www.hci.co.za/corp_profile.htm">http://www.hci.co.za/corp_profile.htm</a>).</td>
</tr>
<tr>
<td>Union Alliance Holdings</td>
<td>Joint venture of NAIL, nine major COSATU unions, three Nactu affiliated unions, the Workers Investment Corporation, the Transformation and Development Trust. It is involved in a range of BEE deals and has media interests. <a href="http://www.mbendi.com/orgs/cp6l.htm">http://www.mbendi.com/orgs/cp6l.htm</a></td>
</tr>
</tbody>
</table>

Hosken Consolidated Investments (HCI) was formed in 1997 by trade unionists Jonny Copelyn and Marcel Golding using R481 million of assets from the investment arms of SACTWU and the NUM (Rose, 2008). HCI was worth R9.5 billion as at the end of 2008, with ‘choice casino, media and other assets’ (Rose, 2008). This company, however, has been mired in controversy since the MIC walked out of the deal in protest against the leadership styles of Copelyn and Golding. SACTWU, however, continues to have a R4 billion stake and has distributed over R100 million to its members through bursary schemes and the like. HCI appears to prioritise earnings from whatever source – hence its major stake in casinos. Copelyn has been dubbed the ‘cowboy capitalist’ by the media and a competitor, Nafcoc Investment Holdings, has accused HCI of manipulating its BEE credentials – saying that a ‘precise analysis of its BEE status is difficult to undertake because HIC’s shareholding appears to be in a state of continuous flux and much of the shareholding is held by entities whose structure, control and beneficiaries are obscure’ (in Rose, 2008).

Union involvement in investment companies has been the subject of great debate in union and left-wing circles (see overview in Iheduru, 2002; Turok, 2008: 162). Whereas earnings from HCI and the MIC have flowed to trade union members in the form of bursaries (Sactwu) and grants for start-up business (NUM), there are doubts about the sustainability of these models. Apparently the two most successful union investment companies, HCT and MIC, were assisted significantly in their ‘take-off’ phase by their purchase of Vodacom shares at the outset of the cell phone revolution in South Africa – which in turn was dependent on their obtaining licenses from government (Southall in Turok, 2008: 162). Furthermore, the market can be quick to punish BEE deals which look like they are not going to deliver. As Bobby Godsell notes, ‘BEE did organise on an organic basis but when they wade into the marketplace, the market trumps’ (quoted in Handley, 2008: 99). Of the over 20 union investment companies that were formed, about a third failed and with the exception of those outlined in Table 4, the surviving firms have remained relatively small (2008: 162).

Part of the problem is that BEE partners, including trade-union investment vehicles, are attractive to participating companies primarily for their political influence, not
their business savvy. This, however, is inherently risky, especially where the nature of that political influence is over-estimated or insecure. Thus, for example, the BEE partners (including the Tambo family, a women’s empowerment consortium and Kopana ke Matša) joined with an established nutritional products company ‘Nutritional Foods’ and a pharmaceutical production facility ‘Impilo drugs’ to form Imuniti investments. It listed on the JSE in December 2006 at R1.50 a share, sank to 57c a share three months later and as of 1 July 2009 was sitting at R0.03 a share. Eighteen months after listing, it was making a net loss of R15 million and had negative cash flow of R4 million. The listing, which was controversial at the time, relied largely on projected revenues from the ‘Imuniti pack’ which is a ‘basic package containing various natural immune boosting products and protein fortified nutritional supplements as well as water decontamination agents’ designed to ‘assist people affected by immune disorders’ specifically HIV/AIDS. Advertising for the product on line makes various untested claims about their ‘natural’ products including rooibos tea have been shown to be beneficial for various conditions, including AIDS. This includes the African potato which has, in fact, been shown to be harmful for people living with AIDS.

At the time of listing, a market analyst observed that a huge increase in revenue was projected, but almost no advertising budget. This implies that the company was expecting large government contracts, presumably with the help of its BEE partners. This, indeed, turned out to be the case when the empowerment partners fell out with the company chief executive officer who admitted that they had been brought in for their political influence, not their business competence. He in fact demanded that the BEE partners hand back their shares because they had not delivered in terms of promises to get letters of endorsement for the packs from government departments and Cosatu and to market 100,000 packs a month for the first year. The BEE partners responded by saying that their active involvement was conditional on the remedial properties of the packs being certified by the Medical Research Council.

In April 2007 Imuniti announced that it would be commencing clinical trials on the pack (despite the product having been on the market for several years). These commenced in 2008 and in June 2009 it was announced that the Wellness packs had passed phase 1 (to test for toxicity) and that phase 2 (placebo controlled trial of efficacy) would take place. The share price, however, failed to move and the only marketing success the company appear to have had in recent times is selling the pack into Africa.

There are several lessons here. One is that BEE investors can make bad choices – and in this case, trade union investments have been undermined. It also shows how BEE deals are constructed on the BEE partners being well connected. The deal was almost certainly that the company would get huge government contracts. But, with
the replacement of Manto Tshabalala-Msimang as Health Minister and successful civil society pressure (lead by the Treatment Action Campaign) the sale of quack nutritional products into the state became a lot less straight-forward. It is possible that the BEE partners had, indeed, made their participation conditional on the MRC showing the product to be effective – but if so, it is surprising that they made such a large upfront investment (which appears to have been lost). It is more likely that they adopted this position once the political wind had changed.

According to Iheduru (2002), organised labour’s involvement in business deals (so-called ‘labour capitalism’, ‘comrade capitalism’ or ‘business unionism’) blurs the lines between workers and owners thereby giving workers a ‘material stake’ in the economy, and helping build a black business class. He argues that this will make cross-class compromises more likely and be good for ‘social concertation’. The problem with this analysis, though, is that union investment companies have by and large not done well, and of those that have, their share holdings are often diffuse and changeable. Furthermore, when the union does have a large stake, the kind of cross-class alliance we are likely to see is one in which labour and management in specific firms or economic sectors approach the government for a bailout and for industrial protection.\textsuperscript{67}

The chances of generating a broader, economy-wide, development coalition thus seem remote as there are too many incentives operating on both labour and business to engage in bilaterals with government, and on a sectoral rather than national level. Yet, as discussed below, the momentum for national-level tripartism is not entirely dead and the current economic crisis is opening up new challenges and possibilities. It perhaps, represents the kind of critical juncture that is needed to get the stakeholders to agree that it is better to co-operate, than sink.

6 THE CHALLENGE OF SHARED GROWTH TODAY

It is now common cause across the political and economic spectrum that unemployment in South Africa is unacceptably high and that job creation should be a key priority. The problem, however, is how to alter the growth trajectory to bring this about. If we project the 2001-2006 growth path unchanged into the future (i.e. with real output growing at 4.3% p.a. and aggregate labour productivity at 1.6% p.a.) then by 2015 more than half of working aged adults would still be without work.\textsuperscript{68} Only if South Africa grew at the impossibly high rate of 6% per year and kept labour-productivity constant (i.e. stopped requiring ever greater increases in output to generate new jobs), would full-employment be possible by 2015. However, the global recession has made this challenge even more daunting. So too has the current economic debate in South Africa which has resulted in substantial hardening of positions and probably also undermined investment growth (Gelb, 2006).

6.1 Policy

\textsuperscript{67} This was the case with regard to SACTWU putting pressure on government to prevent Frame (a textile manufacturer controlled by HCI and providing thousands of jobs to SACTWU members) going out of business. Although the government facilitated an attempted rescue, this effort ultimately failed.

\textsuperscript{68} Note that this is an unrealistic projection – it is provided for illustrative purposes only. As Frankel et al (2008) have shown, it would be impossible to achieve this growth path because it would require either unsustainable and unrealistically high export growth or domestic consumption contraction to finance it.
The ANC’s own left-wing and its alliance partners have been complaining for some time now about fiscal and monetary policy (for being too conservative), about the failure of the government to build a genuine ‘developmental state’ – i.e. to put more resources and emphasis on industrial policy and to intervene more aggressively with regard to investment. These political and economic tensions came to a head at the 2007 ANC Polokwane conference. Mbeki was ousted as ANC leader and the following year (in September 2008) he was forced to resign as president of the country. Some ANC officials split to form a new party, but the ANC went on to win the 2009 election and Jacob Zuma was installed as president of the country. His new, expanded, cabinet included members from both the left and the right sides of the policy divide – leaving the ongoing policy debate unresolved in institutional terms.

Over the past few years, several studies were undertaken to assist with economic policy formulation. Two years before he left the presidency, Mbeki appointed a ‘panel’ of economists (chaired by Ricardo Hausmann of Harvard) to review the obstacles to South Africa growth and make policy findings. But by the time it reported in May 2008 – calling for continued fiscal restraint, more flexible labour-market conditions for young workers, a more proactive competitions policy and a more ‘open architecture’ (rather than sectoral targeting) for industrial policy⁶⁹ – the opportunity to influence the growth debate was long gone. The left, not altogether unfairly, simply dismissed it as a belated and ideologically-driven attempt to legitimise Mbeki’s unpopular economic policies (see e.g. Fine, 2008).

Two other international assessments of South African growth (one by the Organisation of Economic Co-operation and Development (OECD) and the other by the Spence Commission on Growth and Development of which Trevor Manuel was a member), also proposed various market-related reforms to South Africa’s economic policies (OECD (2008) and Spence Commission (2008)). Both stressed the need to remove regulatory obstacles to entrepreneurship. The OECD and the Harvard Group also drew specific attention to South Africa’s concentrated economic structure and problems relating to collusion and market power.⁷⁰ They both recommended a more proactive role for the Competition Commission in this regard.

After the global economic crisis unfolded in late 2008, Manual set up a ‘Presidential Joint Working Group’ of business, government and labour representatives to discuss the three external assessments of South Africa. However, very little progress was made. Cosatu made it clear that it would not compromise its ‘decent work’ agenda – which was interpreted by business as meaning that labour-market reforms to facilitate low-wage employment creation were off the table.⁷¹ The parties resolved to continue talking, but there appears to be little heart in this initiative from all sides.

After Polokwane, Manuel and his powerful Treasury became particular targets of the left for attack. In September 2008, Cosatu leader Zwelinzima Vavi wrote a two-part series for the media critiquing the existing policy for its alleged ‘neoliberalism’, its failure to ‘discipline’ capital and for Treasury’s ‘resistance’ to providing the necessary resources for South Africa’s new industrial strategy (Vavi, 2008a, 2008b). He called for a range of strong targeting interventions such as an expanded welfare system, differential interest rates, the expansion of state ownership in the economy, and

⁶⁹ The findings and background papers are available on the SA Treasury website at: http://www.treasury.gov.za/publications/other/growth/default.aspx
⁷⁰ A recent report by the Competition Commission (2008) highlights problems of collusion in the food sector, in telecommunications, in steel and in liquid fuels.
⁷¹ Interview with a business representative at the meeting (21 January, 2009).
prescribed assets to compel pension funds and the Public Investment Corporation to invest in strategic areas.

This more assertive stance on the part of organised labour and its allies was successful. At the October 2008 ANC policy summit with its alliance partners, the ANC agreed to introduce a ‘planning commission’ in the Presidency and a ‘Council of State’ comprising the President, Deputy President and senior ministers whose job it would be to make strategic and developmental decisions which had de facto hitherto been the preserve of the Treasury.72 The summit also endorsed a call for ‘decent work’ to become the main objective of economic policy. While ‘decent work’ is, by definition a good thing (nobody would call for ‘indecent’ work), its ideological import is to set in stone the ranking of quality of work above quantity of jobs. In other words, the discourse of decent work protects and promotes the old agenda of high-wage, high-productivity growth. It also resonates with the institutional characteristics of the more co-ordinated varieties of capitalism (see Part 4). Yet, by failing to deal with the major source of poverty in South Africa – massive and persistent unemployment of unskilled people, it effectively rules out shared growth by ruling out the needed expansion of relatively low-wage, low-productivity jobs in the short-to-medium-term.

Manuel responded to critics of his fiscal policy stance by noting, in his medium-term policy statement of 22 October, that ‘if our economic policies were designed for their populist appeal, if we tried to finance everything at once, for everybody, then short-term gains would quickly give way to long-term misery’ (Manuel, 2008a:3). Vavi replied by rejecting what he called ‘narrow’ economic indicators like the budget deficit and calling for the introduction of a basic income grant. The National Union of Metalworkers in South Africa (Numsa) leader Irvin Jim added that ‘the time to pursue neo-liberal macroeconomic policies is over’, saying that those who disagreed should leave the ANC.73 Both insisted on the need to focus labour policy on decent work. Manuel responded, albeit obliquely, in a speech on the global crisis, saying that ‘raising the cost of economic activity and restricting our ability to trade is not the right path for South Africa’. He argued that industrial policy had been financed appropriately and warned that the ‘indiscriminate dispensing of cash to firms that lobby for help will also not raise incomes and create jobs’ (Manuel, 2008b:6). The peak-level business organisation, BUSA, supported Manual by lobbying opinion-makers that it was not in the interests of South Africa to depart from ‘prudent’ economic policies.74

At the heart of the fight was the role of government in shaping the growth path. Blade Nzimande and Jeremy Cronin summed up the prevailing left-wing view in a speech to the SACP where they argued that the state should not ‘be confined to being an over-whelmed and under-resourced welfare dispenser on the one hand, and a macro-economic boss-boy on behalf of markets on the other’ (Nzimande and Cronin, 2008). They argued that it should rather be a developmental state which

---

'mobilises our national resources to transform the current accumulation path to one based on a state-lead industrial policy'.

Transforming the economy is easier said than done. As noted in Part 1, a key constraint on South African growth has, and continues to be, poor export performance. Although South Africa’s export basket has become increasingly sophisticated (thanks to increased exports of cars, motor vehicle parts and chassis, filtering and purifying machines for liquids and natural gasses, pharmaceuticals and ferro-alloys) this trend has lagged behind other comparable countries and South Africa’s exports remain dominated by relatively unsophisticated, primary products (Hausmann and Klinger, 2008). Worst still, the manufacturing products which South Africa has a demonstrated comparative advantage in do not entail the use of capabilities which could be easily redeployed to the production of other goods – especially those in labour-intensive sectors. This makes structural transformation very difficult as new activities and new capabilities have to be developed in tandem.

Furthermore, as a recent OECD report points out, pinning an economic strategy on industrial policy ‘is at odds with the recognition of failures of government planning, coordination and administrative capacity as one of the constraints to achieving faster and more widely shared growth (OECD, 2008)’ The discourse over the need for a developmental state thus has an air of unreality about it.

Table 5: The World Economic Slowdown

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009*</th>
<th>2010*</th>
</tr>
</thead>
<tbody>
<tr>
<td>World output</td>
<td>3.6%</td>
<td>4.9%</td>
<td>4.5%</td>
<td>5.1%</td>
<td>5.2%</td>
<td>3.1%</td>
<td>-1.1%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Advanced economies</td>
<td>1.9%</td>
<td>3.2%</td>
<td>2.6%</td>
<td>3.0%</td>
<td>2.7%</td>
<td>0.6%</td>
<td>-3.4%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Emerging markets and developing countries</td>
<td>6.3%</td>
<td>7.5%</td>
<td>7.1%</td>
<td>8.0%</td>
<td>8.3%</td>
<td>6.0%</td>
<td>1.7%</td>
<td>5.1%</td>
</tr>
<tr>
<td>South Africa</td>
<td>3.1%</td>
<td>4.9%</td>
<td>5.0%</td>
<td>5.3%</td>
<td>5.1%</td>
<td>3.1%</td>
<td>1.0%</td>
<td></td>
</tr>
<tr>
<td>World trade</td>
<td>5.6%</td>
<td>7.2%</td>
<td>7.9%</td>
<td>7.7%</td>
<td>7.3%</td>
<td>3.0%</td>
<td>-11.9%</td>
<td>2.5%</td>
</tr>
</tbody>
</table>


Structural transformation is also a lot easier in boom times when opportunities abound and where new ventures can tap into rising markets. Unfortunately, by late 2008, the world economy was slumping towards recession and South African growth and growth prospects were eroded accordingly (Table 5). By the third quarter of 2008, South African mining and manufacturing were contracting (at -8% and -6.9% respectively) with the economy kept in positive territory (growing sluggishly at 0.2%) by agriculture, government expenditure (mainly on military aircraft and public sector wages) and investment by public corporations in electricity generation and infrastructure for the 2010 World Cup. Despite the slowdown in import demand, the current account deficit continued to burgeon, thereby increasing the risk of an abrupt currency depreciation.

Consumption spending, which contributes a fairly stable 60% of GDP, also moved into negative territory in the third quarter of 2008. More worrying is the fact that consumption since the early 2000s has been increasingly financed by debt. This is reflected by the sharp rise in the ratio of household debt to disposable income (from about 50% in 2002 to 77% in 2007) and the collapse of household savings (Figure 7). This bodes badly for the future, especially given the collapse in asset prices (notably the almost 50% decline in the value of the JSE between May and November 2008) and the decline in house prices during 2008.\textsuperscript{76} Distress asset sales and repossessions are likely to rise as banks call in loans and as households try to maintain living standards. The growing black middle class, especially those whose new-found wealth was based on debt-financed BEE deals, may find itself particularly under pressure. So too will households whose bread-winners lose their jobs and join the already substantial army of the unemployed. This, coupled with the likely decline in foreign investment (which has, since 2004, made up the shortfall between savings and investment in both the corporate and household sectors) indicates that South African growth is likely to fall sharply in 2009.

\textbf{Figure 7: Household Consumption, Savings and Debt}
Source: South African Reserve Bank (www.reservebank.co.za)

Soon after becoming president, Zuma introduced a planning commission in the Presidency, as promised, but confounded his left-wing supporters by placing Trevor Manuel at its head. He introduced a new Ministry of Economic Development (headed by leftist Ebrahim Patel) tasked with policy development for the DTI – but it remains unclear what the relative power will be between Patel and Manuel’s ministries. Zuma chose not to introduce the ‘Council of State’, thereby leaving the question of overall responsibility for policy co-ordination unresolved. It is likely that Manuel and the new Minister of Finance (Pravin Gordhan, the ex head of the South African Revenue Services) will promote mildly expansionary fiscal policies, but that Manuel will continue to have as little influence of the labour ministry and the DTI as he had in the past. The chances of a coordinated, labour-demanding growth strategy seem slim, but it is too early to draw firm conclusions.

\textsuperscript{76} South African Reserve Bank Quarterly Bulletin, December 2008: 40, 42.
6.2 Creating Jobs in a Time of Crisis?

South Africa is facing an economic emergency: per capita income is falling; the current account deficit is unsustainable; unemployment is excessive and likely to rise sharply as the global recession deepens; and rising levels of indebtedness and falling asset prices could destabilise the financial sector and undermine consumption further. As the 2009 Budget Review notes, in economic terms, South Africa’s new democracy is facing its most challenging period yet: ‘the period of slower growth ahead is likely to be characterised by rising unemployment, declining business profitability and the closure of some companies’ (Treasury, 2009: 1-2).

Distributional conflict between labour and capital is likely to exacerbate the situation. As shown in Figure 8, in recent years both labour and capital have been adversely affected by rising prices. Unit labour costs (the ratio of total labour costs to output) rose for employers at the same time as real earnings for workers stagnated under the weight of rising food prices. While food inflation is likely to diminish in 2009 (as the global recession takes pressure off commodity prices), general inflation could well be boosted if the Rand depreciates (for example, in response to persistent current account deficits and a likely fall in capital inflows).

Exchange rate depreciation is, of course, potentially very useful in terms of facilitating greater export production. This is because exporters will be able to offer lower prices in foreign currency terms whilst maintaining the value of their Rand earnings. However, if the cost of producing the exports becomes more expensive (because of rising domestic input prices and rising labour costs) then this competitive advantage could be eroded away. This suggests that there may be room for a more ‘co-ordinated’ approach to maintaining competitiveness (and jobs) whereby organised labour agrees to protect profitability by restraining wage increases in line with productivity, business commits to continued investment and to retaining workers as long as possible, and government introduces a set of supportive economic and welfare policies. These latter policies could include: food subsidies; labour-market reforms; a Tobin-tax on short-term capital movements (to reduce volatility on the balance of payments); and extending the welfare net by introducing an employment guarantee scheme or a basic income grant financed by an increase in value added tax.
As discussed in Part 4, co-ordinated approaches, in which labour, government and business work together to promote growth and more egalitarian outcomes, are typically found in Europe and Scandinavia. In this ‘variety of capitalism’, labour markets are more regulated, relations between firms and employees are longer-term and more co-operative, training is more industry- and firm-specific and wage bargaining more co-ordinated across firms than is the case in the liberal market economies of the USA and the UK. Co-ordinated varieties of capitalism have proven capable of delivering investment and growth despite additional demands on firms (e.g. taxes, training, time spent negotiating) – but only as long as profitability could be guaranteed. The system thus rests on an explicit recognition that labour and capital are in a partnership and that ensuring competitiveness is the only sustainable way to deliver a steady increase in real wages. Where firms think that labour does not share this vision, then a co-ordinated growth path becomes impossible as they will substitute capital for labour wherever possible and may even leave the country in search of more profitable opportunities elsewhere.

This suggests that achieving a co-ordinated outcome for South Africa will be very difficult. Most of our labour-market institutions, industrial policies and associated approach to training are modelled on European systems. Yet Cosatu’s rhetoric stresses class-conflict rather than partnership and its discourse of ‘decent jobs’ appears to be seems hostile to the very notion of restraining wages. Indeed, there is a widely held view in government and organised business that any talk of moderating wage increases to boost employment and profitability will meet with such implacable resistance from organised labour that the subject is best not even broached. The Harvard Group accordingly pulled its punches with regard to labour-market reforms, and instead recommended that government help firms address the relatively high cost of unskilled labour by providing wage subsidies for new young

77 See Seekings and Nattrass (2005).
workers. This, however, was an unfortunate cop-out because although a wage subsidy may benefit young workers, it avoids addressing the broader incentives facing firms not to hire unskilled labour.

But is organised labour really so uncompromising? A brief incursion into history suggests otherwise. The wage agreements in 1992 and 1993 in the gold industry demonstrate that organised labour in South Africa is more than capable of concluding agreements which restrain wage increases in order to protect jobs and profits. As this historic profit-sharing moment in South Africa is of potential relevance for today, it is worth a brief historical digression.

The late 1980s and early 1990s were very difficult times for the gold mining industry. Due to falling grades, rising costs and a falling gold price, profit per ton of ore milled dropped by 80% between 1985 and 1992. Workers were hurt too as employment fell by 23% and real wages stagnated and fell (Nattrass, 1995). In June 1991, a Mining Summit (including representatives from labour, mine management and government) was convened to address the crisis. According to Tom Main, the Chief Executive of the Chamber of Mines, this resulted in the annual wage talks being:

‘characterised by a new sense of economic realism, reflected in the lower basic wage increases agreed on, with certain mines agreeing to pay bonuses depending on movements in the gold price and in productivity at mine level’ (Main, 1991: 4).

Commenting on the 1991 gold performance agreements (where workers agreed to a real wage decline plus productivity and price related bonuses) Marcel Golding, the then acting general secretary of the NUM, noted:

‘The choice we had to make was whether to drive a higher wage increase with less employment in the industry as a real prospect – or whether we try to achieve maximum employment, and at the same time augment wages and win social rights’

These agreements, however, proved complex to administer (as the productivity indicators varied from mine to mine), so in 1992 and 1993 the NUM concluded profit sharing agreements with gold mines owned by Anglo American, Genmin and Rand Mines (Nattrass, 1995: 864). By tying wage increases to profitability, workers were able to ensure that their wages rose as fast as possible – and with a minimal impact on employment.

This innovative moment in South African history only lasted for three years. It fell apart because there were concerns about the process of profit sharing and because union officials were concerned about the potentially divisive effect of having the more profitable mines pay workers relatively higher wages. Even so, it demonstrates that even South Africa’s most militant trade unions are capable of concluding agreements which recognise the trade-offs between wages, employment and profitability. The challenge today is to re-create that sense of partnership in a time of crisis, and for all parties also to look beyond their own narrow interests and

78 I have it on good authority from people inside the Treasury and in the Harvard Group that these political concerns about resistance to labour-market reforms and wage restraint from labour had an impact on the final report.
80 Personal communication with NUM officials in 1994.
help chart a way forward which creates more jobs (rather than just protecting the jobs that already exist).

If this does not happen, the economy will continue along its current path where firms have little incentive to hire unskilled workers, where jobs for the skilled and semi-skilled will increasingly be threatened by the global recession and unemployment will remain high. This means that more and more pressure will be placed on the government to expand the social welfare net as the number of tax payers stagnates. Currently there are 5.4 million individual tax payers and 13.4 million people on social grants in South Africa with this expected to rise to 15 million by 2011/12 (Treasury (2009: 15, 57)). South Africa already has the most generous and redistributive welfare system in the global South, yet even so, it fails to provide sufficient cover for the unemployed. Of the 5.2 million unemployed in 2008, less than 10% received any short-term assistance from the Unemployment Insurance Fund during 2008.

In other words, South Africa will continue to be a society where for every one tax payer there are three social grant beneficiaries and one able-bodied unemployed adult wanting to work. Not only is this economically sub-optimal, but it is extremely socially undesirable to have so many people wanting to work, but being marginalised and excluded by an economy which benefits some, whilst excluding so many.

The 2009/10 government budget will help cushion the problem by boosting demand, expanding the public works programme, assisting small business and farmers and expanding the welfare net. But this is likely to have only a marginal impact in the short- to medium-term. The 5 million or so unemployed South Africans without any income will thus continue to rely on friends and family for food and hand-outs, they will probably fuel South Africa’s petty crime problem and they will slowly swell the ranks of the ‘informal sector’.

Of South Africa’s 13.7 million employed, 4.7 million are informal. This is likely to grow as small businesses find their profits under pressure and attempt to avoid the labour regulations. Opportunities will therefore open up for some of the unemployed over the medium-term (although employers may prefer illegal immigrants as these workers are unlikely to report employers to the authorities). South Africa will start to look more and more like a Latin American economy (where a large informal sector exists alongside the formal sector) as the informal sector grows to provide some income-floor for unemployed people and struggling businesses.

This ‘Latin Americanisation’ of the South African economy is likely to be slow as South Africa already has a highly competitive and concentrated retail sector which restrains income-earning opportunities for small informal retailers and which puts pressure on producers to restrain their prices. Also, if the Department of Labour responds by increasing its inspectorate, prosecutions (and threat of prosecutions) could act as a further dampener to the growth of the informal sector. But the pressure for less regulated forms of employment will probably be inexorable and government officials will find it harder to police infringements of labour laws. There is

81 This figure comes from the Quarterly Labour Force Survey which estimates that in mid 2008 there were 4.1 million unemployed people actively searching for work, and a further 1.1 million discouraged workseekers – i.e. who wanted work but had given up looking for it. See: http://www.statssa.gov.za/publications/P0211/P02113rdQuarter2008.pdf.

82 According to the 2009 Budget Review, there were 442,000 beneficiaries of the UIF in 2008/9 (Treasury, 2009: 93).
thus a good chance that South Africa will become more like Latin America where officials tolerate a large sector of business activity in which the usual labour and other standards are effectively ignored.

Avoiding this scenario would require an end to the current stalemate in which organised labour prioritises job quality over quantity, business has little incentive to invest in job-creation, and government economic policy fails to encourage labour-intensive growth.

7 CONCLUSION: SBRs AND PRO-POOR GROWTH IN SOUTH AFRICA

We have argued that state-business relations have been transformed in the post-apartheid period by corporate unbundling and the rise of BEE but that the growth path has remained fundamentally untransformed in that labour-market and industrial policies continue to support a high-wage, high-productivity economy. Ironically, then, there are strong continuities between the post-apartheid ‘variety of capitalism’ and its apartheid predecessor. By retaining, albeit in a deracialised form, the labour-market and welfare policies of the apartheid government, the post-apartheid state continues to foster social divisions between insiders (the employed) and a marginalised unemployed population.

Change was managed cautiously by the ANC, with care taken to avoid alienating the established business sector and organised labour. The net result was policy incoherence, where labour-market policy was implemented by a pro-union Ministry of Labour, and where more orthodox economic policies were implemented elsewhere. Despite the creation of Nedlac and what appeared to be some impetus towards the construction of a broader national social accord, this institutional innovation failed to live up to its potential promise as a forum for the construction of an inclusive growth or development coalition. Both organised labour and big business preferred to engage with the state directly, rather than in a tripartite context.

The literature reviewed in Parts 3 and 4 highlighted the importance of institutions in shaping SBRs and the necessity for strong government commitment and support in building growth coalitions with business and labour. Growth or development coalitions do not arise organically from between labour and business – they are facilitated (or not as the case may be) by the state. This, in turn, raises the question as to why the apartheid government effectively side-lined Nedlac in favour of bilateral dealings with business and labour.

Accordingly to Handley (2008), the South African state, like the Mauritian state, has the capacity to engage, and is engaging, in ‘constructive contestation’ with business – thereby making it unlikely that we will witness the kind of crony capitalism evident in Zambia and Ghana. Taylor likewise sees evidence of a ‘growth coalition’ with business in the new South Africa. But such analyses fail to appreciate how the ANC’s relationship with organised labour severely constrained its room for manoeuvre – and thereby also its room to forge meaningful growth coalitions. Whereas the Mauritian socialist prime minister was able to forge a social-democratic compromise that delivered growth, profits, jobs and welfare, the ANC government was unable to obtain the consent or agreement of organised labour for its economic policies. The mid 1990s were a period of crisis for the new government as it stared down the barrel of a debt trap – yet the urgency of the situation, and the need to cut
government spending was never successfully communicated to, or accepted by, the ANC’s electoral partners: organised labour and the South African Communist Party.

It was probably precisely because organised labour was so opposed to GEAR that the Minister of Finance did not take the policy to Nedlac before releasing it as the official growth strategy. By trying to assert its right to make economic policy unhindered by its ‘social partners’, the government won the battle, but because it was acting out of weakness, ultimately lost the war. Organised labour responded defensively by concentrating its labour-market policy gains and the government acquiesced by ceding the Labour Ministry to pro-union policy makers. Indeed, rather than presenting a united front, the government comprised a set of competing ministries whose approach to economic policy, SBRs and labour relations were designed to accommodate different social and economic interests. This allowed organised labour exercise power within and without the state by contesting the ANC’s economic policy openly and making a bid within the ANC-Cosatu alliance for power. Indeed, the fight over GEAR was one of the reasons for Mbeki’s defeat at Polokwane and the installation of a more left-wing administration under Zuma in 2009. Cosatu is currently fighting hard for a more interventionist ‘developmental state’ and even for nationalisation.

On Jun 4, 2009, *The Economist* quoted Cosatu leader Vavi as saying: ‘We are the policy makers .... and government implements. The government doesn’t lead any more’. While it is impossible to tell to what extent this is bellicose posturing or an indication of real political power, it does indicate very strongly that organised labour has chosen to pursue its interests directly with the state, rather than engaging in any class-compromise project with business. This, in turn, will undermine further the potential to gain the trust and consent of business necessary for a genuinely co-ordinated and egalitarian variety of capitalism or for the formation of any future growth coalition of the kind evidenced in Mauritius.

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

In short, we could be about to witness the growth of a form of crony capitalism with a peculiarly South African twist in which organised labour lobbies government on behalf of employed workers and its investment interests. However, unlike Zambia and Ghana, the South African economy is large enough for there to be many other routes for aspirant capitalists to make money – even though BEE regulations may act as a tax on that effort. Furthermore, there exists a dynamic civil society which has won important victories (notably against Mbeki’s Health Minister – a victory which no doubt ended Imuniti’s dreams of easy profits through nutraceuticals) and which has been opposing corruption in the arms deal. Neo-patrimonialism thus may grow, but as long as civil society remains strong, and the economy reasonably diverse, it is

unlikely to become the key defining feature of the post-apartheid variety of capitalism.

State-business relations remain fragile and highly fragmented. This reflects a combination of several factors. First, and most importantly, relations between state and business have been highly (although not universally) racialised at a personal level, with the lack of familiarity breeding deep suspicions on both sides. Established or ‘white’ business has been sceptical about the expertise and competence of much (but not all) of the political and bureaucratic personnel in the new state, especially given the proliferation of rent-seeking and corrupt behaviour. Most of the new (mostly black) political and bureaucratic leadership views white business elites as reactionary. In South Africa, state officials have rarely enjoyed the ‘embedded autonomy’ that Peter Evans considered central to the success of East Asian developmental states. They enjoyed some autonomy, but were only weakly networked with established capitalist elites. The one group within which the state is very much embedded is the new black economic elite. This renders the state respectful of corporate profitability (as long as these profits are shared with the black economic elite), but it does not amount to a ‘developmental’ coalition prepared to tackle the constraints on the rate or path of economic growth.

Second, the possibility of forward-looking, institutionalised growth-promoting SBRs is undermined by the overwhelming political importance of a policy agenda that reflects the legacy of apartheid: most important are the regulation of labour markets and the transfer of corporate ownership and control to a new black elite. The ANC’s complex alliance with organised labour has made it very difficult to hold serious discussions around labour market deregulation (and related reforms in public education and healthcare). Indeed, BEE seems to have served as a distraction from the challenge of pro-poor growth.

This combination of personal relationships, politicised imperatives and an underestimation of institutional weakness encourages the government to assert its dominance, rather than to deliberate, negotiate and compromise. In response, capital tends towards the strategies of ‘exit’ (made easier in a context of globalisation) or ‘loyalty’ (in the hope of securing special privileges or exemptions), rather than of ‘voice’. The striking similarities between apartheid-era SBRs and post-apartheid SBRs in South Africa raises the possibility that the combination of (1) a (mostly) strong state and (2) marked social distance between political and economic elites makes it difficult to establish (3) sustained, institutionalised SBRs. The prospects are slight for an economic growth path that is more intensive of unskilled labour and less dependent on skilled labour and capital.
REFERENCES


OECD. 2008. Economic Assessment of South Africa, 2008: Achieving Accelerated and Shared Growth for South Africa, Summary available on: [http://www.oecd.org/document/63/0,3343,en_2649_34577_40981951_1_1_1_1,00.html](http://www.oecd.org/document/63/0,3343,en_2649_34577_40981951_1_1_1_1,00.html)


<table>
<thead>
<tr>
<th>ACRONYMS</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANC</td>
<td>African National Congress</td>
</tr>
<tr>
<td>ASGISA</td>
<td>Accelerated and Shared Growth Initiative of South Africa</td>
</tr>
<tr>
<td>BCEA</td>
<td>Basic Conditions of Employment Act</td>
</tr>
<tr>
<td>BEE</td>
<td>Black Economic Empowerment</td>
</tr>
<tr>
<td>CBM</td>
<td>Consultative Business Movement</td>
</tr>
<tr>
<td>COM</td>
<td>Chamber of Mines</td>
</tr>
<tr>
<td>Cosatu</td>
<td>Congress of South African Trade Unions</td>
</tr>
<tr>
<td>ECSECC</td>
<td>Eastern Cape Socio-Economic Consultative Council</td>
</tr>
<tr>
<td>LRA</td>
<td>Labour Relations Act</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>SBRs</td>
<td>State-Business-Relations</td>
</tr>
</tbody>
</table>