

CONTENTS

1. Map of venue
2. ANC Constitutional Guidelines documents
 - 2.1 Introductions to the Guidelines
 - 2.2 Constitutional Guidelines
 - 2.3 Freedom Charter
3. Background articles
 - 3.1 The ANC's Constitutional Guidelines: An Economic Assessment - Fuad Cassim
 - 3.2 Democracy, Socialism, and the future - Daryl Glaser
 - 3.3 Social Accord - Dr Ronald Bethlehem
4. An overview of the effects of apartheid on Economic Growth and Income and Wealth Distribution - Prof Michael McGrath
5. Implications of the ANC's Constitutional Guidelines for Economic Growth and for Income and Wealth Distribution in the light of experiences in other countries - Prof Gavin Maasdorp, Dr Ari Sitas, Mr Peter Corbett, coordinated by Prof George Trotter

FOREWORD

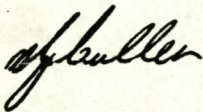
In recent months Idasa has run a national series of workshops aimed at facilitating responses to the African National Congress' Constitutional Guidelines. A number of questions have been raised concerning the ANC's economic policy. Of particular concern is their commitment to a 'redistribution of wealth', which is stated in the Freedom Charter and confirmed in the Constitutional Guidelines.

This seminar on the "Economic Implications of the ANC's Constitutional Guidelines" was initiated by members of the three hosting bodies following the earlier workshop series. A need was felt for a forum to discuss the economy of the future by directly tackling the subject of wealth and income redistribution.

The formal presentations will introduce a general discussion in which all will participate. The wide range of views should ensure a rich debate. In order to prepare for this all participants are being sent the enclosed background reading.

We look forward to seeing you on June 28.

Yours Sincerely



Gary Cullen
Convenor

THE ANC'S CONSTITUTIONAL GUIDELINES: An Economic Assessment

By Fuad Cassim.

INTRODUCTION

I have been asked to offer an economic assessment of the ANC's recent constitutional guidelines. I do so with humility, as the subject matter is vast and the issues at stake are complex. Such an assessment requires much collective thinking and debate by all sectors of our society. Therefore, this discussion represents my preliminary thoughts which will hopefully contribute to further debate.

The need and perhaps impetus for a gathering such as this is the growing awareness amongst all sections of the South African public, that apartheid must go, not merely the word, but the reality in all its facets. The massive resistance that emerged against the imposition of new structures under the 1983 constitution signified not only their rejection but also the reaffirmation of the Freedom Charter as the basis for an alternative society.

Despite this popular support and my own sympathy for the Freedom Charter (FC), my argument today seeks to achieve rigour and to provoke further discussion that will clarify the problems that the FC and the recent constitutional guidelines raise. In fact, it is becoming clear, that the content of the FC needs to be developed. By itself, it does not address concrete policy alternatives. Hence, the constitutional guidelines have been developed to meet this need and further debate. The questions and issues that both documents (the FC and constitutional guidelines) raise are a challenge in themselves. However, despite the publication of the guidelines, the agenda as far as I am concerned remains an open one - people or movements do not follow a script, the real world is more complicated. Within limits, what people want will always have to be struggled for.

Any speculation on the future of the economy has to be based explicitly or implicitly on a critique of the present economy, its structure, external ties and current functioning. The constitutional guidelines have evolved from a critique of the present economic system and the economic crisis. The question should be posed as to whether there is an economic crisis in the present South African scenario? Yes, there is but it is multiple and varied in its manifestations and degrees. It is a crisis centred on the ability of the present government to produce or supply what the whole world agrees should be

their essential services: peace, social justice and economic progress. To illustrate the structural and systemic nature of the crisis we face, I will briefly trace a snapshot version of the rise and decline of the apartheid economy.

The Rise and Decline of the Apartheid Economy: A Review

If we look at two key historical periods of economic development in S.A., then the period from 1960-1973 stands out for its massive generation of wealth and simultaneous intensification of apartheid. The growth rate was 5.5% per annum. It was a period in which the dividends of a high growth rate produced very little benefit to the majority of the people - in fact it laid the basis for conditions which restricted the accumulation of capital on the part of black people.

The second phase, from 1974 onwards, was one where the costs of apartheid began to rise. Therefore the present crisis of the economy is a long-term one, since the economy has been experiencing structural decay from the mid-seventies. The growth rate declined to 1.8% per annum. Unemployment and inflation were increasing simultaneously, the balance of payments became more vulnerable to capital movements. The composition and form of foreign capital changed from direct capital investments to portfolio and loan capital. Political resistance also played a major role. Hence, it became more difficult to finance an apartheid-based economy.

So what we are faced with today is not simply a decline in the growth rate of the economy but rather a deep crisis within our productive system i.e. an institutional erosion of the growth process. So our problem is not simply one of a higher growth rate, but the creation of institutions that can lay the basis for sustainable development and growth. The question can be posed as follows, how is it that a system has tipped from consolidation into decay. It can be briefly spelt out as follows:

The nature and logic of the apartheid-based economy laid the material and institutional foundations for the boom of the 60's. At the same time it produced a costly superstructure of privilege, which in the stagnationary phase of the 70's put a much higher price tag on sustaining the structure of apartheid. Thus, the costs of apartheid came to outweigh the gains. In this sense its success was at the same time its undoing.

In short, the logic of capital accumulation was called into question. It is this situation that has produced what we can term a systemic crisis, that is, a crisis which engulfs our entire political economy, and in particular fuels the rising unrest in the townships. Hence, we are faced with a wasteful political economy which has

produced untold social problems, a lopsided distribution of wealth and income, which demand radical restructuring. Any meaningful change requires the dismantling of apartheid and restructuring of the economy. The one cannot take place without the other.

THE CONSTITUTIONAL GUIDELINES

The Constitutional guidelines are in my view at best a modest attempt to make a specific intervention in a crisis-ridden society. In general there is a commitment to the principles of national unity, a mixed economy and international non-alignment within the framework of a democratic and non-racial system. Within these parameters there seems to be no principled commitments to particular economic policies nor to specific courses of action. They are not a blue-print but a set of proposals. They do not set out to give all the answers. Their weakness lies in the lack of detail hence, it becomes difficult to make rigorous intellectual assessments. Thus, any effort to inquire into the probable outcome of future events will always have a contingent quality. On the other hand, their strength lies in opening up tremendous room for critical debate.

The Constitutional Guidelines are clearly seen as an alternative to the present status quo and propose a "new paradigm" where South Africa will be shared by all. So it is a paradigm which is a response to the decay of the apartheid social order and its racially exclusive paradigm.

"The old", i.e. the apartheid structure of accumulation - the rules of which are already known is based on;

- Disenfranchisement of the majority
- Restricted economic rights, e.g. land ownership
- Group areas
- Separate Amenities
- Racially based allocation of Social and Welfare services.

So, in response to the crisis of Apartheid, the alternative as laid down in the constitutional guidelines calls for restructuring and transformation not only in the economic sphere but in the political social, ideological and legal spheres as well.

Now if one begins to examine the guidelines, it is quite obvious that there are generalities which are subject to differing interpretations.

Though a number of distinct themes emerge in so far as the question of a future economic order is concerned - I want to single out two inter-related themes for the

purpose of discussion. These are: (1) The concept of the mixed economy and (2) Economic growth and redistribution

paragraph Q, states (see: appendix):

The economy shall be a mixed one, with a public sector, a co-operative sector and a small-scale family sector.

It is clear that the guidelines envisage a mixed economy, combining state regulation and the market mechanism. It is here that a great deal of ambiguity lies. What is the appropriate form of synthesis between state regulation and the market. Neither is there a distinction between short-term, medium and long-term policies.

This begs the question as to what sort of mixed economy do the guidelines envisage? The question is really what kind of political economy does this imply?

Mixed Economy

The term mixed economy can be defined as one whereby both the the state and the private sector play an important role in the economy. The co-existence of the state and private property in the economy has characterised a wide range of countries in this century.

Historically interventions by the state have been undertaken in many Western countries to stabilise and promote economic growth. In fact, one of the key factors in the sustained growth of the Western mixed economies in the post-World War II period has been the vastly increased influence of the public authorities in the management of the economic system. For e.g. government intervention has been strategic in many areas, which were unprofitable to the private sector. Railroads, energy, steel, electricity, etc, were projects which the private sector was unable to fulfill, hence, governments intervened in financing ventures which were long-term, risky and plagued with uncertainty. So, the concrete outcome of a mixed economy, though characterised by a degree of accomodation and mutual benefit between conflicting interests is equally fraught with tensions and contradictions.

In short, the concept of a mixed economy provides us with a general formulation within which to satisfy the very many conflict-ridden tendencies within the economy. To what extent the mixed economy remains inherently conflict-ridden is difficult to answer in the abstract.

The questions pertaining to different forms of ownership, with respect to co-operatives and small-scale family activities provides an alternative model between the market and the state. In particular it can express the needs of men and women as producers and consumers. This line of action could give scope for social energies and

local initiatives and eases the burden on the state, allowing the public apparatus to concentrate effectively on strategic problems.

Market and the State

Let us examine some of the clauses in relation to the state and the economy. In broad terms it appears that the guidelines envisage a multiple role for the state as an economic agent.

Most analyses of transition usually make the state the primary and defining character of the economy, such that the state shall act in the interests of the majority. In turn, this is seen simplistically as the juxtaposing the market versus state. This can be discussed at the most general level but the issue is not simply the market or the state but which markets or states (e.g. cabbages/stock markets) For successful development there has to be both, the market and the state. States have proved successful at what markets can do but markets can introduce a degree of flexibility which states have proved weak at. Hence, state versus market is a false dichotomy which misleads.

The market mechanism has advantages and disadvantages. Where it may be appropriate to some areas of the economy it may not be to others.

With regard to the economic aspects of the nature and function of the state, a very sober conclusion has to be drawn from history. Neither the laissez-faire posture of many theoretical economists nor absolute central control provides the answer. What is required is judicious interventions where objectives are clear problems are grave and there is a reasonable possibility of effective state action.

In relation to clause N, (see: appendix) no state can give cast-iron guarantees that it will invariably act in the general interest. Does this mean that one simply adds up all diverse and competing claims and satisfy them equally and thus secure the general interest. The role of the state and state intervention will depend on political demands and economic constraints. After years of not sharing in the benefits of society, aspirations of the oppressed would be high. Hence, any final outcome on the role of the state depends on the complex interplay of different social forces in support for, and resistance to the actions of the state. Given this inherent indeterminacy or openness it is impossible to be affirmative about the precise role of the state.

Clause O and P (see: appendix) imply to my mind a regulatory and compensatory role for the state. Again this is not spelt out. Most states define the general context for economic activity, in fact capital accumulation without a state is inconceivable. No economy works in a

spontaneous and automatic fashion, hence the state can play a guiding role. The private sector itself requires a stable environment in which it can take long-term decisions. Hence, the state could play a guiding role in sending signals directing it towards activities profitable for the nation and themselves. A compensatory and distributive role has as its objective the achievement of redistribution of income and wealth and to prevent concentration in too few hands, thus preventing serious distortions in the economy and society. This accords with the objectives of the freedom charter.

We know that no economic system works perfectly. Historically the State has proved as flawed and as dangerous as the market.

What is clear in the proposals is that the elimination of the market sector should not be a goal. Markets play a useful role because it provides signals, incentives, stimulate cost reduction and adaptation to technological change. On the other hand, the market alone cannot guide or direct a national economy along an economically and socially optimal growth path or automatically generate socially attractive institutions. If everyone worked on small farms or in small shops, if blacks had the same rights as whites, than the free market might be the best solution. But this is not the case. In fact, in South Africa the opposite has been the case where market and property relations have been denied to the vast majority. This means that we should try to develop a mix of institutions which can combine market processes with social goals and collective strategy formulation.

So what is the relationship between the market and the State?

What form, then should State action take, and how should it's limits be defined. How should markets be regulated? These are questions to which no straightforward answers exist, because they hinge on the state of the economy at a particular point in time, its level of development, etc. However, areas can be delineated in which needs are not market-based: education, health, welfare, street-lighting, urban public transport, sewers - are not provided because they are not profitable. It is in these areas that the market can be insensitive to human needs and hence, non-market allocation has to step in. The market promotes criteria of individual rationality without necessarily taking into account the common good.

Let us take the case for health. Here I have no reservation in saying that a planned national health service is better able to meet the health needs of the majority of the population. If an individual is sick the market does not necessarily give the best diagnosis. Moreover a private health service does not inherently have the incentive to engage in preventative

health. Some people may be too poor to even use such a system. So, in the case of health, education and social services, there is a strong case for non-market allocation. Here there can be an argument for democracy not markets. The public at large may not be experts in health matters, but then they should be able to elect social services who represent their interests. If they are entrusted with the right to elect governments, they should equally have the right to elect the health planners, thus retaining choice over policy options within the health service without returning to the market. Similarly, the case applies to education. This solution must combine state regulation with a measure of democratic control.

In general it is impossible to discuss every sector of the economy and discuss the case for regulation by public authorities. In some cases there ought to be provision by the state without the use of the market, whereas in others the state provision could compete alongside the market mechanism, e.g. private GP's could co-exist alongside a national health service.

Economic Growth and Redistribution

The document begins with a preamble, which emphasises the need for "corrective action" to guarantee and reverse the distribution of wealth and "open facilities to all." This touches on the much debated relationship between economic growth and redistribution.

In this context, one can infer that the proposals intend to adapt the economy and society to the needs of the majority. This new logic necessitates transformation and re-organisation of the economy in order to overcome structural deformations. But transformation means not only prioritising. The question is as usual, what comes first? In other words what is the trade-off between growth and equity? A basic needs strategy is not necessarily a barrier to long-term growth. So the task is to set priorities. A restructuring would orientate the society to different goals.

The central question remains-how can a nation's overall economic viability be maintained at the same time as redistribution takes place. This question captures a fundamental dilemma in any process of transition.

The transition to a mixed economy as envisaged in the constitutional guidelines involves a number of interrelated and often contradictory processes. On the one hand, the need to transform apartheid structures, while on the other hand because of the necessity to avoid economic collapse/ or creating a wasteland, the productive infrastructure must be preserved. Thus the key concern is to transform an economy which has acted at

the behest of one sector of society to act in the interest of the majority.

Growth of output and income are extremely important both in their own right and because of improvement of living standards. However, there is a vast array of questions that ought to be included in a fully developed political-economic programme. Some of the more obvious are the nature and dimensions of welfare provision, policies towards the racially disadvantaged, gender inequality, methods of work organisation, poverty income and wealth distribution, the degree of priority to be accorded to unemployment reduction and the ecological consequences of economic activity. Decisions have to be taken about trade-offs, interrelationships and orders of priority on all those sorts of issues none of which can be separated from a narrowly conceived economic strategy.

But, the achievement of the goal of growth with equity - is not an unproblematic process as many other experiences show.

However, in a society where there are desperate disparities between races in living standards, health, education, welfare, etc - it is quite clear that the state must do something. Any state has to meet the urgent social and economic needs of its people. In a society such as ours where legal and political institutions give land, capital and labour to one sector of the population - the dice are already loaded. These differences can be cumulative and left to the market they can be self-reinforcing. Hence, state intervention to reduce inequality of wealth and income is imperative. In as much the market system provides opportunities it does at the same time generate inequality, thus compensating mechanisms and a redistributive policy needs to be evolved. In this regard the guidelines though clearly recognising the gravity of the situation fall short of providing a more explicit approach and specific proposals exist. Thus the question of redistribution needs to be explored in much more depth.

Conclusion

To sum up then, I think the issues raised in the constitutional guidelines should be viewed as a challenge. Nevertheless, the very character of the proposals require a realistic probing of the country's situation and an awareness of the structure of the economy in order to answer questions about possible alternative measures.

The problems of transition are present in every society that tries to modify a system based on the interests of a minority so that it favours the the socio-economic interests of the majority. Therefore the guidelines should not be viewed as final demands but as constituting a process, which in the final analysis depends on historical

conditions, the relative strength of various groups, and on many other unpredictable factors. What is certain is that those who participate in the events of today face an extraordinary intellectual and moral challenge and must bear great responsibility for future generations.