Development, Business and Government: From Inflexible Ideologies to a Sustainable Partnership

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A pragmatic relationship between business and government in the form of a developmental coalition for growth offers the most sustainable solution for overcoming South Africa's deep-seated developmental challenges.

However, to do this, social partners in South Africa – organized business, labour and government – will have to go beyond holding inflexible ideological positions such as either narrow neo-liberalism or narrow socialism, and adopt more pragmatic approaches.

South Africa's relatively large and sophisticated business sector is a competitive advantage compared to many other competing emerging markets, including the other BRICS countries. However, the collective energy, skills and know-how of South Africa's business sector has not been effectively leveraged by the ANC government for development.

Most of the successful East Asian developmental states were built on the back of sustainable growth coalitions between government and business. East Asian governments did not force business into these partnerships. Business entered into them voluntarily. Importantly, business there saw the mutual benefits of partnering with their governments in such development coalitions: a virtuous cycle of new growth opportunities for them and their countries.

In these East Asian developmental states, business, not the state, disciplined free-riding peers itself, as a grouping. East Asian developmental state governments secured and retained the trust of business by delivering effective services, minimising corruption and governing fairly in the interest of the widest number of people, not only a small elite.

What are the obstacles to cobbling together a sustainable coalition for growth between business and government in South Africa? There is deep distrust between SA's main market stakeholders or social partners, including between the ANC government and organized business. Yet trust is essential to foster a developmental coalition.

One problem may be that different social partners in South Africa are simply too ideologically rigid. Some in the ANC government are ideologically opposed to business playing a leading role in development. People in this group wrongly argue that only the state can generate growth. They furthermore argue that the state should 'discipline' business – in other words, business must bend to the state's will.

This ideology is illustrated by history. During the struggle for liberation, black businesses in the townships were often attacked by some ANC cadres for being 'collaborators' with the apartheid regime. The argument was that if they were thriving despite apartheid segregation rules – which restricted black business operation – they must be on the cut with the apartheid regime. In the post-apartheid era, black business leaders who cut their teeth as enterpreneurs during the apartheid era were often ignored by the ANC despite all their experience and know-how. In fact, the black business leaders who have dominated the post-1994 era are those who made their money through political capital. They lack the kind of real entrepreneurial skills and authentic business experience possessed by those like Soweto businessman Richard Maponya, who built his business during the apartheid era with no political help.

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Another problem is that certain ANC members want to opportunistically use business for their self-enrichment – the phenomenon of narrow black economic empowerment, which only enriches the few well-connected ANC leaders, is the result.

Sections of South African business are also unduly ideological. Influential sections of South Africa's mainstream business and academic economic complex have been dominated by a narrowly-defined Anglo-Saxon discourse on economics. This discourse fits into the neo-classical tradition of economics, which argues that only the market, with no regulations, can deliver on development. A more appropriate capitalism orientation for South Africa would be a "social market" model – a rule-governed, competitive market, where there is an inherent partnership between labour and capital at board and shopfloor level; or the stakeholder model, which sees the firm as an enterprise involving all its stakeholders. However, in South Africa, it appears that many mainstream business leaders adhere fervently to the neo-classical view, wholly distrusting the idea of the state and trade unions as influential market players.

A good example of such rigid ideological positions undermining development can be found in the dispute among social partners over whether South Africa's labour laws, rules and regulations undermine growth and job creation, and if so, what kind of reforms to pursue. Many companies and business leaders say South Africa's labour market is too rigid, saying central bargaining wage settlements are too high, trade unions too unreasonable and that it is difficult to fire unproductive employees. Trade unions, on the other hand, are fearful, believing that if labour laws are eased, organized business would deliberately and intentionally introduce practices to undermine basic employment and human rights conditions. Cosatu leaders such as Zwelinzima Vavi say, given the fact that racism is still deeply ingrained at South African workplaces, the exploitation of poor, vulnerable, black workers will increase.

However, pragmatism from all stakeholders is essential, as the problem may not be an simple either/or one, neatly fitting one or the other ideology. South Africa has a segmented labour market, differing in characteristics depending on rural or urban areas, or the formal or the informal sector. In every segment there are seemingly barriers to entry if one is unemployed, unskilled or low-skilled.

Additionally, South Africa's labour market is highly racialised. Organized business is mostly white-managed, with managers often coming from a select few universities and private schools. This is partly because public schools produce poorly skilled individuals, of little use to the job market. Black public school leavers do not have the hard skills, social skills or connections to enter the labour market. Those without jobs and skills are therefore likely to be black and often young. Furthermore, since most public schools leavers come from townships or rural areas far from the labour market, and public transport is erratic and costly, job hunting is an expensive exercise.

More often than not, the unemployed unskilled or low-skilled school leavers do not have information about job opportunities, or cannot access them because of distance to the markets and high transport costs. In the private sector, where management and ownership is dominated by established (white) owners, white jobseekers appear to have easier access to jobs. In the public sector, even if one is black, political connections rather than merit often determine securing a job. This excludes a sizable number from the workforce.

The middle way is most probably Finance Minister Pravin Gordhan's approach, which argues that some of South Africa's labour laws may have to be 'loosened' if the government's job-creation targets are to be met and if jobs have to be created for the country's young unemployed. In such a compromise approach there would not be a wholesale relaxation of labour laws, but a more targeted relaxation of specific regulations, specifically intended to create jobs. As a case in point, Gordhan says a balance needs to be found to retain the jobs of the 10 000 people working at clothing factories in Newcastle, KwaZulu-Natal, while still allowing them to earn a reasonable wage and keeping the factories open. Some textile factories in the area have said they would be forced to close down if they were to pay minimum wages.

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Another example, says Gordhan, is to relax laws in order to allow young people to enter the workplace and gain skills and experience. In this context, lower wages would have to be introduced, but not at the expense of people who already have jobs. In this same context, small and medium-sized businesses should be exempted from collective bargaining agreements.

Since attempts to foster social pacts at a national level between government, business and labour have not been successful, perhaps a better option would be for social partners to focus on specific sectors and policies and try to reach narrow agreements on these, rather than broad national agreements. A good example is that of the deal between trade unions and companies in the textile industry. In 2011, these groups signed a ground-breaking agreement which could serve as a model for other sectors. The South African Clothing and Textile Workers Union (Sactwu) agreed to cut wages for entry level jobs by 30% to save existing jobs, create new ones and revive the textile sector – currently on its knees because of cheap Chinese imports flooding the market.

"We estimate that this would create 5 000 jobs by March 2014. If this is not achieved, then the agreement will fall away," said Andries Kriel, Sactwu's General Secretary. Kriel said that although wage rates in the clothing industry are bitterly low, Sactwu has allowed a concession that employers can pay 70% of these rates as part of a phase-in programme towards full compliance.

To move South Africa forward all of the social partners will have to make compromises – such as the textile agreement – on the core issues which they perceive as non-negotiable. If not, South Africa's policy debates will remain stuck in a blame-game. Labour will also have to do more: it will have to discipline its members to stick to inflation-linked salary increases, and link wage increases to productivity increases. Public sector trade unions must also discipline their members, such as teachers and nurses, to pursue a better civil service work ethic.

But South African businesses will also have to become better corporate citizens to build broad-based credibility. Business must come to the party by genuinely pursuing equity, skills development and community development, rather than making token affirmative action appointments. At present, too many primarily white companies have implemented BEE and affirmative action policies by selecting well-connected black politicians for black economic empowerment deals, and by appointing such politically connected individuals to boards and senior executive positions, in the hope that such individuals will provide protection from government criticism, or political 'insurance' against calls for radical redistribution. Other still more cynical companies are criticized for appointing token blacks without adequate skills for the role. These 'tokens' are set up for failure – and when they fail, the companies who appoint them can argue that affirmative action does not work.

Government has responded to organized business' perceived reluctance to implement genuine transformation by introducing tougher BEE and equity rules. On the other hand, black professional bodies such as the Black Management Forum have adopted increasingly strident positions, in response to the perceived lack of transformation from mainstream business.

Tito Mboweni, the former Reserve Bank Governor, says that the mining industry's failure to meet its side of mining BEE targets, together with its failure to "act timeously" to remedy the harm it did during apartheid, has put it in a weak position to respond to the ideologically motivated call for nationalization. The initial reaction of the mining sector and organized business to calls for nationalization has been to issue strong statements describing nationalization as bad, 'socialist' and 'communist'. Such business statements played right into the hands of the ANC Youth League, who portrayed 'white' business as typically 'opposed to transformation', and 'unable' to provide alternatives to tackle black poverty.

It would have been better if organized business had pro-actively proposed a 'big-bang' compromise solution, such as for South Africa to introduce an Australia-like royalty tax regime, with the proceeds – jointly managed by the private sector and government – going into training, skills transfer and empowerment of communities and employees, rather than to politically connected individuals. The private sector could voluntarily implement such measures, following clearly agreed targets and timeframes.

Including employees in share-ownership schemes and engaging in more skills transfer and community development schemes would have been a more morally powerful approach to black empowerment. A more pro-active business lobby could begin such schemes without waiting for government – for example, it could join forces to start artisan academies and plug the technical skills gaps in areas such as IT.

The ANC government will have to come to the party too. The current policy focus on securing employment equity in terms of numbers, replacing white faces with blacks, no matter the merit; and the focus on wealth redistribution to a selected few well-connected individuals through black economic empowerment will have to change. A better approach would be to focus on skills transfer, improving education outcomes, creating new industries and helping entrepreneurs succeed, including the 5 million entrepreneurs in the informal sector. Those black entrepreneurs who did not make their money by using political capital currently struggle with high barriers to entry, such as lack of finance, lack of access to markets and lack of institutional support for entrepreneurship.

Government must genuinely improve the capacity of the public service. It must ensure merit plays a much greater role in appointments, it must seriously deal with corruption and waste, and it must become more accountable and cut the costs of doing business. In this way it will secure the trust and credibility that will make partnerships with business sustainable. Unless government governs better, it will be difficult for it to generate a partnership with business based on trust – so important for a sustainable business/government relationship.