

# Can a growth summit deliver?

President Thabo Mbeki's call for a growth and investment summit later this year has been met with mixed reactions both in and outside government. The experience of the Presidential Jobs Summit in 1998 has left many rather sceptical of yet another summit and what it can achieve. 'No one has a comfortable feeling about the jobs summit' and 'if the growth summit replicates the jobs summit it is a road to nowhere, observers say.

Since the jobs summit little has been communicated to the public about the outcomes of the post-summit process, while the monitoring committee has not met since October 2001. These factors, coupled with a view from government that it ultimately became responsible for implementation of all agreements reached, have led to a belief that little was gained. A source close to the jobs summit process says: 'It evolved into protracted negotiations on detail and trade offs that constituted an event with no follow through and delivery.'

The idea of a growth and investment summit was raised in December 2001 during discussions within the joint presidential working groups of organised labour, black business, white business and agriculture. The parties agreed to work towards an investment summit, which would focus on promoting economic growth and investment.

Aside from the presidential working groups the Millennium Labour Council

(MLC), a bipartite structure set up by a group of leading businesspeople and labour leaders, had also resumed discussions on how to deal with the challenges facing the South African economy. When the MLC was set up in 2000, it committed itself to develop a shared vision on growth, investment and job creation. Since the negotiations around amendments to the labour laws, elements in government have been rather sceptical of the MLC process. The *Labour Bulletin* looks at the MLC and assesses its future role. (see p 17)

The idea of a growth and investment summit became a reality during Mbeki's opening address in Parliament in February 2002. In his speech Mbeki linked such a summit to the idea of negotiating a social accord or compact. 'This will mean, among other things, achieving congruence in expectations and certainty in such matters as inflation, wage and salary demands, rates of investments, positioning of the country in the global arena, our role in Nepal, job creation and poverty alleviation.'

Now that the dust has settled all parties are beginning to examine what this will mean: how such a process will unfold, what are the objectives of such a process, who will drive it and what are the ultimate deliverables.

Preliminary discussions have taken place within the National Economic Development and Labour Council

(Nedlac), the alliance structures and within some government departments. These discussions were aimed at seeking clarity as to what such a process hopes to achieve and whether it was possible for the parties to enter into some form of social accord/compact. Despite opposition from the Department of Finance and other ministries and within the ANC, it appears as if the summit will still go ahead. There is no clarity at this stage, as to whether this summit will set the scene for a longer process leading to an accord/compact. There is a sense within government that labour and to a lesser degree business will be unable to deliver on a social accord.

Cosatu discussed this issue briefly during its executive committee meeting in February 2002. The federation indicated that it was prepared to engage. However, it remained unclear what government would bring to the table and whether discussions would focus on economic policy questions or not. Any broad agreement or proposed social accord would have to be measured against the need to address the crisis of poverty, unemployment and inequality, Cosatu said.

It is understood that the director-generals from the departments of trade and industry, labour, treasury and presidency are supposed to draft the terms of reference for the process.

### **Who will drive the process?**

The jury is still out as to who will drive the process directly. Nedlac – as the institution set up to engage in social dialogue on socioeconomic issues – would like to drive the process. However, it appears that government wants to take the lead and ensure it is in control of the process as ultimately, it believes it will have to implement agreements reached. A government source says: ‘The Presidential Jobs Summit taught government that neither business nor labour has the

capacity to deliver on a set of agreements and it was ultimately left to government to deliver.’ The question remains whether government itself has sufficient capacity to deliver. Producing a policy document is different from being able to implement it.

Government has the right to take the lead. What remains unclear is how government wishes to drive the process and whether a space will be created for proper dialogue and engagement. There is concern that government will use the opportunity to legitimise its own policies by tabling them to get buy-in and support without considering a broader range of issues. It is understood that those departments who do not want to open engagement on broad policy questions are supporting this approach.

This approach might not go down too well with those within business and labour who might see the proposed growth summit as an opportunity to forge a closer understanding on what interventions are needed to ensure growth. The members of the MLC might be visualising a very different process of consensus seeking and the development of a shared vision as they continue to explore the experiences of Ireland and Holland. One of the key drivers behind the MLC, Leslie Boyd, says the parties in Holland and Ireland acknowledged that there was a crisis of high unemployment and poor economic growth. Out of this emerged a process of social dialogue, which led to a consensus agreement. This led to high levels of growth and job creation in the medium to long term.

### **History of social accords in SA**

The call for a growth summit or a social compact is not new to South Africa. A growth summit was held during the previous regime while a call for a social accord/compact was made in the mid-1980s.

The idea of a traditional type of incomes accord has evolved over the years.

An analysis of international models of social compacts has revealed that a number were aimed at controlling inflation as in the case of Italy and Mexico. Under these circumstances the trade offs were rather predictable and related to prices, wages and exchange controls.

The type of trade offs or series of agreements, which can be found in a number of examples around the world, include the following: wage moderation, increasing training opportunities; a restructuring of the tax scales to ease the burden on low and middle-income earners; increases in the social wage through raising social security benefits for low-income earners; increasing government expenditure on essential services and social infrastructure; government to subsidise retraining programmes; supporting SMMEs and inflation targeting.

During their lifespan most of the social compacts contributed towards economic growth in their respective countries. But the results were very much dependent on the differing realities they faced. Most of these agreements spanned the period from the 1980s to the mid 1990s. The global realities are vastly different now to five years ago. Therefore, South Africa cannot just pick a model and adopt it. South Africa needs to develop its own solutions, as some of the trade offs agreed to in other countries might not be feasible here. For example, a call for wage moderation might be appropriate in a developed economy with a strong social security network. In a country like South Africa this might not be appropriate where unemployed households rely heavily on remittances from family members. This issue is explored in more depth in the labour force survey released

by Fafu last month. (see p 39)

The advent of the bipartite MLC in 2000 has shifted the focus increasingly towards the merits of the Irish and Dutch models. However, it is questionable to what extent government believes this approach can work in South Africa, bearing in mind that Ireland's economic growth from the mid-1980s was not only a result of a social compact but the influx of huge amounts of foreign direct investment.

### **Issues to be debated**

If government plans to move ahead with the growth summit, there needs to be clarity from the outset as to its objectives. In addition, a source says: 'People need to see that this will move the country forward.' Ultimately, if the summit is concerned about growth then it will have to focus on issues such as investment, poverty and unemployment.

As mentioned above, the dominant thinking is not to focus on a broad policy debate. The department of trade and industry sees the summit as an opportunity to table its revised industrial strategy document. It is understood the document is in its final drafting stages and takes into consideration some of the work done by the ANC's Economic Transformation Committee (ETC). As mentioned in the previous *Labour Bulletin*, the ETC has been developing what has been dubbed a 'new economic growth path' for the last 18 months.

However, if the summit is to address issues around poverty, government is going to have to consider a review of the existing social security net. A comprehensive report is currently before Cabinet. One of the issues central to this debate is Cosatu's call for a universal income grant. UCT economist Haroon Borat looks at whether such an intervention will significantly reduce

poverty (see p 19) while Cosatu responds to this. (see p 25)

All too often government or business questions whether labour has the capacity to engage or whether it can deliver on agreements reached. Recent developments within 'organised/disorganised' business raise some critical questions about its ability to engage and deliver on issues of national interest. René Grawitzky talks to various business organisations about the state of business. (see p 29)

Once business is able to engage, what then is it able to practically deliver on? There are strong indications that government wants some form of commitment around domestic investment. Government has finally realised that foreign direct investment would not flow into the country in the absence of local investor confidence and investment. Economist Stephen Gelb assesses the role of domestic investment in South Africa. (see p 31)

Gelb says it would be extremely difficult to get business to commit to increasing domestic investment. 'Even if organised business organisations were to agree, how could they ensure their members comply?' Based on his research, Gelb says, business is concerned about poverty and inequality in so much as how it could impact on changes in government policy.

Business needs certainty. However, even within that, it will prove difficult to compel companies to invest given the political balance of forces, he says. Ultimately, Gelb says, it is far easier to control labour than it is business.

A critical area that business can contribute towards is the increase in the number of learnerships which has a direct impact on raising skills levels and employment. Business has been granted a range of incentives and tax breaks to follow this route as proposed in the Skills Development Act. René Grawitzky looks

at whether business is committed to skills development. (see p 37)

Of overarching concern for business is social stability. It is within this area that labour believes it can cooperate with business and participate in joint campaigns to fight crime, the spread of HIV/AIDS and other similar socioeconomic issues. For some time labour has been talking about some form of agreement around productivity. This is an area in which all parties are concerned. However, more importantly is stability within the labour market. A critical question, of course, is whether labour will be required to endorse a number of government policies such as privatisation.

## Conclusion

One of the key challenges for growth is to get all parties to take a longer term view on their returns, including labour.

Finally, if the growth summit takes place, it will require on the one hand, enough national momentum and agreement around policies being adopted and on the other hand a strong government who will lead. This requires government to lead but to create the space for a minimum level of national consensus seeking. 'The single biggest problem that destroyed Gear was government's refusal to discuss it with the unions,' Gelb says. Herein lies the key challenge for the success of the growth summit. Despite a relatively new environment of social dialogue in South Africa, the parties in Ireland did not have to contend with vast differences in thinking. It is far easier for a society to achieve common direction when differences are not so wide. If government is serious about this process and the desire to put the country on a real growth path, now might be our last chance to achieve national coherence on policy – or is this just a naïve wish?