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SOCIAL DEMOCRACY AND THE 'DEVELOPMENTAL STATE' AS DEVELOPMENT ALTERNATIVES FOR SOUTH AFRICA

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Abstract
This paper investigates social democracy and the 'developmental state' model as development alternatives for South Africa. This research is significant as it enhances the developmental debate in South Africa that is indispensable in light of South Africa's poor socio-economic performance. A comparative-historical study is conducted, as well as an analysis of the socio-political situation in South Africa to determine each model's compatibility with South Africa. State autonomy is assumed essential. Liberal democracy and the authoritarian 'developmental state' model are rejected on theoretical and compatibility grounds. Social democracy is therefore investigated. It is concluded that this model is theoretically stronger, yet ideologically squeezed, and its execution is hindered by major stumbling blocks that are identified. Ultimately, it is shown that the economics is fairly simple, but the "primacy of politics" is essential.

1. INTRODUCTION

SOUTH AFRICA'S SOCIO-ECONOMIC PROGRESS since the political transition in 1994 has been less than stellar. South Africa still faces tremendous socio-economic challenges such as crippling unemployment, severe poverty and inequality and unacceptably low standards of education (Turok, 2007: 1). Economic growth has too been disappointing and savings rates are low. The need for improvement is becoming increasingly urgent, and debate has arisen on whether the African National Congress' (ANC) pursued path of neo-liberal, pro-market economic reforms, which culminated in the macroeconomic policy framework named Growth, Employment and Redistribution (GEAR) in 1996 is leading South Africa on a successful and sustainable path of growth and development, or if, as many on the Left have criticized, it is hindering development and merely causing greater poverty and 'jobless growth' (Southhall and Webster, 2010: 142).

After a resurgence in popularity, it has become fashionable in the highest official policy circles in the last few years to proclaim that the 'developmental state' is the answer to South Africa's socio-economic woes (Fine, 2010: 196). This has come about as a result of, *inter alia,* the unprecedented economic growth experienced by Japan and the so-called East Asian 'Tigers' (South Korea, Hong Kong, Singapore, and Taiwan), the archetypes of the developmental state paradigm (Turok, 2007: 1). South Africa's departure from the Reconstruction and Development Programme (RDP) to GEAR, and GEAR's subsequent failure to deliver on its growth and employment mandate, have also heightened interest in the developmental state model. It has been hailed by some as a panacea for South Africa's economic, social and institutional troubles. The South African

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government has in fact explicitly committed itself to being a developmental state, making it one of the few governments in the world to do so (Edigheji, 2010: 2).

The global financial crisis that culminated in July 2009 reinforced the notion that markets are often not self regulating and gave credence to arguments that advocate state interventionism (Edigheji, 2010: 1). The orthodox 'efficient market hypothesis' has been undermined and this has contributed to renewed interest in the role of the state in development. According to Przeworski and Limongi (1993: 65), *state autonomy* is a prerequisite for economic success. This paper assumes this from the onset for reasons that will be elaborated on in the next section. Authoritarianism and democracy form two metaphorical branches of the state autonomy tree. The general types of developmental state models that have been suggested for South Africa have predominantly been formulated to operate within a *democratic* political structure. However, the political structure synonymous with the developmental state as promoted by the East Asian countries is relative authoritarianism. An exploration of the literature revealed that the 'type' of developmental state being proposed for South Africa is a *democratic* developmental state that is concerned with both economic growth and social progress. Much inspiration for this envisioned model is being drawn from the East Asian model, but in fact, this research finds that the proposed South African democratic developmental state model seems to be, in essence, more likened to the social democratic model. Yet, due to ideological and contextual constraints, the European, and specifically the Scandinavian social democratic model, has been sidelined as a model of comparison and as a framework within which to place South Africa's development strategy. This paper argues that the development debate in South Africa has underexplored this model as a viable and desirable developmental model for South Africa, despite its theoretical strength and higher degree of compatibility with South Africa than the East Asian model. As South Africa is by constitutional definition, a democracy, it seems logical that social democracy be explored to better enhance this developmental debate.

Essentially, this paper sets out to advance and broaden the developmental debate in South Africa and to explore how important the socio-political structure is within which certain economic models of development exist. There seems also to be a lack of literature exploring the fundamental socio-political aspects of the developmental state model and social democracy. The paper begins with a brief overview of the general international development debate that is dominated by two very broad schools of thought, i.e. the orthodox, neo-liberal, or liberal democratic camp and the state interventionist camp, including such models as the developmental state and social democracy. After this concise discussion, liberal democracy and the developmental state are both dismissed as viable development models for South Africa. The bulk of this paper then turns to examining social democracy. The characteristics of the model are highlighted, followed by an analysis of the socio-political and economic conditions in South Africa to gauge whether this model could be a feasible development option for South Africa. The research aims to identify any major challenges that appear that would hinder the implementation of social democracy in South Africa.

Ultimately, this research forms part of a broader endeavour to find solutions or a path towards attaining the solutions to mitigating and eventually eliminating South Africa's crippling socio-economic problems such as high unemployment, low economic growth and widening inequality. This debate is of vital importance to contemporary South African policy makers as South Africa's aforementioned problems affect the lives of every

South African citizen. Besides a deep concern for South Africa's development, research on this topic is imperative in light of globalisation and the changing global economic and political climate whereby financial crises are becoming all too familiar and the cracks of current orthodox systems are widening and becoming irreparable. What this particular research project highlights is that it clear that the question of development is ultimately a political dilemma, rather than purely an economic one. The economics is relatively simple when the correct institutions and people are in place, so long as those implementing the economic policies will act in the national interest. But yet again, this is a political question. This paper aims to show that the "primacy of politics" is essential (Platzeck *et al.,* 2007: 1). Economists and economic policy makers alike must take cognisance of the greater socio-political context in which economic policy frameworks exist in order to implement economic policies that will lead to the successful development of South Africa. The paper concludes that whilst social democracy cannot be implemented as a one-size-fits-all approach, it is a useful framework within which to place South Africa's development strategy, and therefore deserves greater attention as a useful model for comparison. This is because it exemplifies, *inter alia*, the importance of what this paper finds to be the key ingredient to unleashing developmental possibilities, i.e. a class compromise, or what Erwin calls a cross- class alliance. It is shown that whilst this seems necessary, the implementation of such a compromise is severely hindered by major ideological, socio-political and institutional stumbling blocks in South Africa. Further research on the possibility of a cross- class alliance that benefits all parties is required.

2. THE INTERNATIONAL DEVELOPMENT DEBATE

As mentioned, the South African development debate is essentially framed within a broader international debate where two competing economic visions exist: the first is founded on neoclassical economic orthodoxy encompassing neo-liberalism, liberal democracy or what Dore (2000 in Fryer, 2009b: 17) calls "Anglo Saxon capitalism", as spearheaded by the United States of America; and the second includes those models that do not surrender all to the whims of the market, and involve high degrees of state autonomy, such as the East Asian developmental state model, Keynesianism and social democracy (the exemplar of which is Scandinavia). Of course there is a spectrum of models that exist, but generally they exist within the broader debate identified here. Therefore, it is these two visions alone that will inform this analysis. The latter category takes greater cognisance of the fallibility of markets in the absence of regulation and corrects for market failures to achieve socially efficient outcomes. As mentioned, the necessity of the state is assumed essential in this paper. The following paragraph provides the reasoning behind this assumption.

Evans (2010: 44) says that a lesson that was learnt from the 20th century developmental states was that the state has to be one of the "institutional keystones" needed to bring about economic success. This is becoming clearer, as the idea that globalisation and neoliberal policies are beneficial to the development of developing countries, is not supported by the evidence any more. In fact, the evidence spawned from the recent global economic crisis suggests quite the contrary, i.e. that unregulated markets are "unworkable and unsustainable in the long run" (Edigheji, 2010: 1), and an increased role of the state is essential. There seems to be a realisation by governments worldwide that

state interventions to drive development are vital for "well-being and even for the sustenance of market economies" (Edigheji, 2010: 16*)*. Before the crisis, and particularly before GEAR, the ANC and the government realised this, and that in order to eradicate poverty and inequality, a state with the capacity to intervene would be required (Edegheji, 2010: 1). Przeworski and Limongi (1993: 65) explain that in the presence of incomplete markets and imperfect information, the economy can only function if the state is there to insure investors, firms and depositors. The importance of the state is also explained by Huang (2002: 538). Huang (2002: 540) argues that state intervention is indispensable to solving what he calls Coordination Failure One (CF 1) and Coordination Failure 2 (CF 2) problems. CF1 problems are market failures that cause, for example, investments to be lower than the socially optimal level (Huang, 2002: 540). The state therefore needs to implement CF 1 policies to counteract these failures, such as governmental actions that restrict domestic markets to domestic firms or that socialize investment risks "by undertaking public investments" (Huang, 2002: 547). However, CF 1 policies create rents and may give rise to CF 2 problems. CF 2 problems occur when governments and/or firms fail to coordinate their activities, causing for example, excessive entry into targeted industries (Huang, 2002: 540). It is essentially a political failure. CF 2 policies are then required, i.e. state- imposed market restrictions. These will only be functional if the correct state institutions are in place. This does however require governments to have the necessary political and intellectual capacity (Huang, 2002: 547). The state is key but it needs to function correctly in a coordinated, skilled and strategic way. It needs to be autonomous, and should not succumb to special interests. The importance of an efficient and coordinated institutional architecture will be elaborated on to come.

It is therefore assumed for these reasons (and others beyond the scope of this paper), that state autonomy is necessary. Furthermore, the *nature* of this autonomy is crucial. The models under consideration in the second category (state autonomy), i.e. the 'developmental state' and social democracy, have significantly different autonomous political structures, namely relative authoritarianism and democracy respectfully. Before we compare these two structures, it seems more sensible to return to the first category (orthodox neoclassical models), and flesh out the liberal democratic model to start.

a. Liberal Democracy

In the 1980s, the libertarians and neo-liberals brought about a return to "rugged individualism, deregulation, and privatization of social protection" (Esping-Andersen, 2002: 4). Markets were able to reign freely. Besides perhaps the debatable exceptions of New Zealand, Britain and the USA, accomplishments of neo-liberalism have been limited, even where "their ideology was vocally embraced" (Esping-Andersen, 2002: 4). This is in large part due to the fact that neoclassical economics has little regard for equity, and even views it as a "drag on growth" (Edigheji, 2002: 11). Whilst the strength of liberal democracy is its promotion of efficiency though market clearing, its lack of focus on social justice cements its downfall (Esping-Andersen, 2002: 7). In most European states, there exists an unfailing "dedication to basic social citizenship, to pooling social risks collectively" (Esping-Andersen, 2002: 7). There is an absence of a collective social responsibility in the liberal democratic model. The inherent flaws in liberal democracy can be seen when analysing the exemplar of the liberal democratic paradigm, the United States of America (US). In the US, liberal democracy has allowed the economy to be

primary. It is well-known that market-generated inequalities are high in the US (Swenson, 2001: 3). This is based on classical assumptions that people are rational, and the market will result in the most favourable outcomes. The economy represents a classical unleashing of productive forces, allowing capitalism to expand. In America, there exists the idea that the economy needs to be protected from the political, so as to promote the activities of private individuals who are focused on the pursuit of irregular interests (Wulfric, 2010: 1). The political structure is merely seen as the best way of providing checks and balances. In contrast to social democracy, liberal democracy is not seen as the productive core of the economy. In America there are property rights and a high level of faith in the bourgeoisie. But labour and labour forming alliances are weak. As Lazare (1997: 32) explains, the US remains one of the few societies in the world, without a viable working-class political party of even the most anaemic kind. Whilst "no country claimed to value individual rights more highly than the US, few suppressed the collective rights of labour more vigorously" (Lazare, 1997: 32). America is an "economically polarized society marked by freedom for an increasingly narrow elite and growing unfreedom for those below" (Lazare, 1997: 35). According to Wulfric (2010: 1), liberal democracies are distinguished as a society "divided amongst itself". Parliament is full of political parties that are buffeted and influenced by competing minority interests that never pull together in one direction. Political parties hardly represent the people but their donors, lobby groups and corporate backers. This is because, as Lazare (1997: 37) explains, the role and rights of the people is essential negative, i.e. "to guard the system against subversion or attack, but otherwise to stand aside and let it do its work" (Lazare, 1997: 31). Everyday life is de-politicized. The individual is expected more or less to rely on the state for liberty. The liberal state has instituted his/her 'rights' and "citizenship is mainly a non participatory condition to be passively enjoyed" (Wulfric, 2010: 1). According to Rosa Luxemburg (in Geras, 1994: 97), "the people in a democracy should be the active source of change, instead of mere objects of it". The people require a "high degree of political education, of class consciousness and organization" (Geras, 1994: 97).

If liberal democracy has lead to the deterioration of civil liberties, and specifically positive freedoms that would stunt the development process and the provision of economic needs that extend further than just basic needs then this system is not appropriate for South Africa, and we can dismiss it on the grounds that it is flawed and an undesirable political structure that will not allow for maximum growth and development in South Africa. This is essentially due to its inability to impart positive freedom on individuals, which would prevent a mass participatory movement based on compromise and coordination (that South Africa crucially needs) from coming about.

After accepting the importance of the state for development, and subsequently dispelling liberal democracy, we return to our exploration of the models in the second category. The 'developmental state' paradigm shall firstly be analysed.

b. The developmental state:

According to the book "*Constructing a democratic developmental state in South Africa*," edited by Edigheji (2010), the developmental state that is envisioned for South Africa is be centred on "its ability to promote economic and social inclusion, as well as being underpinned by the principles of democratic governance". In contrast to this vision, a key feature of the East Asian developmental state is the statist rightwing political regime that

most of these countries have assumed, albeit to differing degrees, namely, authoritarianism. In the book, the authors discredit the argument that the developmental state cannot be democratic, i.e. that they cannot coexist. They therefore borrow predominantly economic, as opposed to political aspects from the East Asian model for adoption to a democratic, South African model. Whilst their argument that development and democracy *can* coexist is compelling, I disagree that the *developmental state* and democracy can coexist, as one cannot separate the political and economic elements of the East Asian developmental state model. I suggest that the economic and political elements of this model exist only because of the existence of the other, i.e. the specific economic policies in East Asia, (such as high savings and high corporate debt/equity ratios) could only exist because of the authoritarian political structure (which, for example, suppresses consumption) and vice versa. If the economic policies are applied in isolation, or within another political structure, they will be ineffective, and possibly detrimental. Huang's analysis suggests that on a purely economic basis, there is no reason why South Africa should not imitate Korea. However, the crucial constraint is political. "When the requisite institutional characteristics, such as policy integration and bureaucratic competence, are absent, pursuing strongly developmental policies can make a country worse off than otherwise" (Huang, 2002, 563 in Fryer, 2009b: 20). Of course, I would suggest that there are purely economic constraints too, but these could perhaps be overcome if South Africa had the correct political and institutional framework. Fine (2010) also suggests this idea that both the political and economic aspects cannot be seen separately. Fine (2010: 170) distinguishes the developmental state definitions found in the literature into what he calls the 'political school' and the 'economic school'.

The 'political school' has been concerned primarily with whether the state has the capacity to be developmental (Fine, 2010: 170). It is concerned with the political and ideological concerns that make appropriate economic policies possible (Fine, 2010: 171). Authoritarianism is able to function in these countries due to the presence of a Weberian bureaucracy (Evans, 2010: 45). Members are recruited on a meritocratic basis, and are tasked with formulating industrial policy in the national interest. In this model, there is also a close relationship between the state and capital (a domestic private elite), otherwise known as 'alliance capitalism' where labour is somewhat silenced.

The 'economic school' by contrast is preoccupied exclusively with correct economic policies (Fine, 2010: 171). Emphasis is on market imperfections solved by state interventionism predominantly in trade and industrial policy. The state controls finance and investment allocations so that targeted firms can achieve economies of scale in fairly uncompetitive environments (Fine, 2010: 171). Wade and Veneroso (1997: 7) provide a succinct 'economic school' definition: "High household savings, plus high corporate debt/equity ratios, plus bank-firm-state collaborations, plus national industrial strategy, plus investment incentives conditional on international competitiveness equals the 'developmental state'". Other characteristics of the industrial strategy include a reliance on export markets, import substitution industrialisation and massive infrastructure in heavy industry (Baek, 2005: 485).

It is evident that such a system and unique financial structure requires a large degree of co-ordination between banks, firms and the government. The government has to place restrictions on foreign borrowing by firms to keep tight control on capital mobility. Firms and banks who do not operate in accordance with the national industrial strategy do not receive this government support and therefore the entire system is disciplined.

Institutional arrangements are fundamental. The institutional environment within which these policies exist involves a high degree of central planning, a powerful central government with a large bureaucracy, and corporatist control over society (Baek, 2005: 487). These institutions formulate and implement policies to meet their greater developmental objectives. Of these institutional arrangements, Chalmers Johnson, the first to 'coin' the concept of the developmental state, identified "pilot agencies" that are "super-ministries" in industrial policy making, such as the Economic Planning Board (EPB) in South Korea (Huang, 2005: 13). Through these organisations, the state "was central to the provision of new capital" and it had "authority over foreign currency allocations" (Evans, 1995: 48 cited in Godongwana, 2007: 1).

These definitions of the developmental state facilitate a comparison of South Africa's conditions with those needed for this model. On a purely economic basis, although the macroeconomic policies of this model are innovative, South Africa seems ill-equipped to implement such a system. The East Asian system of high levels of corporate debt would be extremely vulnerable to shocks if not for their government support and high level of coordination and implementation of CF 2 policies. It seems safe to assume that South Africa's government capacity is too weak to provide the sufficient level of support and disciplining processes required to protect large domestic firms from such potent shocks. This kind of financial structure also requires a tightening of capital controls. South Africa abolished its financial rand in 1995 and now relies heavily on short term, speculative foreign capital portfolio flows to compensate for a current account deficit (Theunissen, 2010: 1). This system is already precarious, but if South Africa were to cut back on foreign capital inflows, a balance of payments disaster would ensue. It is therefore hard to imagine, in light of South Africa's economic liberalisation policies, often indistinguishable from neo-liberal IMF stabilisation policies that the necessary restrictions on capital flows would be enforced (Fine, 2010: 175).

On the political front, besides the theoretical flaws inherent in authoritarianism, which falls outside the scope of this paper, authoritarianism would simply not be allowed to work in South Africa. It seems far –fetched to believe that authoritarianism could function in light of the current democratic political structure and atmosphere of 'freedom' that the 'new' South Africa offers. Also, considering that the ANC emphasises that "the people shall govern" (Fryer, 2009: 2) and prides itself as being one of the most progressive democracies in the world, it would be impossible, owing to the psychological sentiment of human rights in South Africa, to institute an authoritarian regime without a severe backlash from reactionary forces. Moreover, South Africa does not enjoy a 'platonic elite'. The political culture of Japan and China for example, where bureaucrats are highly skilled and revered, contrasts dramatically with South Africa, where politicians and civil servants are not trusted or held accountable, or perhaps even sufficiently qualified and skilled for the job (Godongwana, 2007: 1). The political culture in Japan and China for example consists of a highly qualified bureaucracy, whereby members of the public service are held in high esteem (Evans, 2010: 45). In terms of industrial strategy in South Africa, Fine (2010: 175) says, "far from the (developmental) state coordinating or even coercing private capital to commit to a concerted programme of industrial expansion and diversification, the interests of private capital have predominated over development goals". Fostering a purely exclusive relationship between business and the state in South Africa will in all likelihood simply lead to cronyism between political and business elites. The presence of workers' unions in South Africa would also make this

kind of alliance capitalism highly contested in South Africa. The nature of the South Africa labour market is an important element that suggests, as shall be shown, that social democracy is better suited as a model of comparison and should be considered in more detail. This shall be shown below. Whilst the economic policies that the developmental state model entails are innovative, the incompatible political nature of this model immediately trumps any potential success that economic policies might have had. Therefore, if the political structure at the heart of the developmental state model is relative authoritarianism, and the economic policies of the developmental state depend on this political structure, then we may deduce that the developmental state model can be ruled out as a developmental alternative for South Africa.

3. CONSIDERING SOCIAL DEMOCRACY

The rest of this paper takes a closer at social democracy, with relation to South Africa. At the ANC national conference in Polokwane in 2007, the ANC recognised that their proposed developmental state would have to be "undergirded by the principles of democratic government" (Edigheji, 2010: 2). The government would engage with private capital strategically whilst be "rooted amongst the people and buttressed by the mass-based democratic movement" (Edigheji, 2010: 2). In light of this significant emphasis on democracy (and other reasons to follow), it is believed here that social democracy is in fact a more compatible model for comparison in South Africa than the developmental state. It is important to note, as mentioned, that social democracy is not being considered as a 'one-size-fits-all' approach, but that it merely appears to be a better framework of comparison for South Africa due to its political compatibility and its theoretical strength. For South Africa to develop, a model will need to be devised according to specific domestic conditions, historical legacies and institutional obscurities (Evans 2010 in Edegheji, 2010: 16). The challenge associated with using other models for comparison and insight is to come up with a "thorough pragmatism that lies between understandings that are too specific and those that are too general" (Fryer, 2009b: 21). Building such a model will need to be a constantly reflexive, "open process of trial and error[1]" (Edegheji, 2010: 16). Finally, as shall be shown, it will have to be "a process of a protracted struggle and negotiations between competing classes" (Edegheji, 2010: 18).

This section will be laid out as follows. Firstly, with the aid of Platzeck *et al.* (2007: 1), the basic tenets of contemporary social democracy will be highlighted. The analysis then turns to the socio-political and economic conditions in South Africa, to assess its compatibility with social democracy. It is suggested that a class compromise is the essential ingredient needed for a social democratic based development strategy to work. However, there are serious challenges that may thwart the possibility of a class compromise and therefore the likelihood of such a compromise requires investigation. These major stumbling blocks are identified, followed by suggestions or possibilities regarding what needs to be done to overcome these stumbling blocks.

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[1] Geras (1994: 98) eloquently describes the similar ideas of Rosa Luxemburg, the famous Marxist and social democrat, into two characteristics of this process, namely 'interiority' and an 'open horizon'. Social democracy was an 'open horizon' for Luxemburg, i.e. the people can make of it whatever they want. They do this through a self-formative process of learning-by-doing, self-education and self-criticism, what Geras calls 'interiority' (Geras, 1994: 98). Searching for a correct model will have to see this process as an open horizon characterized by 'interiority'.

a. Tenets of social democracy

As stressed, what is so strikingly different about liberal democracy as compared to social democracy is the suppression of politics. As Platzeck *et al.* (2007: 1) explain, the social democratic model acknowledges the "primacy of politics", as superior to the "narrow-gauge, economic thinking" of liberals and Marxists. Social democracy replaces this thinking with "the principles of reform, progress, compromise and a balance of interests beyond the boundaries of class" Platzeck *et al.* (2007: 1). Arrighi (2008: 41 cited in Evans, 2010: 40) says that the barriers to pursuing developmental possibilities are "more political than economic". The political foundation at the core of the social democratic model is naturally, democracy. Instead of complex governments, institutions and checks and balances, the goal of democracy should be to overcome the incongruity between the government and the governed (Lazare, 1997: 37). One of the great theoreticians of social democracy, Eduard Bernstein famously said "democracy is a condition of socialism to a much greater degree than is usually assumed … it is not only the means but also the substance …" (Bernstein, 1899 in Fryer, 2009b: 25).

A timeless common thread of social democracy is that it refutes laissez - faire liberal capitalism where there is an absence of regulation. Social democrats insist on playing direct and pragmatic roles in directing change (Platzeck *et al.*, 2007: 1). Social democracy actively couples market dynamics with "social reform and social renewal, in order to systematically make growth and prosperity attainable to all layers of society" (Platzeck *et al.*, 2007: 1). There are clear Keynesian undertones, but the model devised by the Stockholm School in Sweden was more constructive in that it did not just attempt to stabilise the business cycle and achieve full employment, it went further by using these methods to bring about positive development (Lundberg, 1985). In the Swedish model, the public sector is extensive and it involved an important alliance between the elected party and the centralised labour movement, which is seen to protect the interests of workers (Sandbrook *et al.*, 2007: 187 cited in Godongwana, 2007: 1). Swenson (2001: 10) shows how this model was mutually beneficial to all parties as it also protected the interests of *employers* too. For example, a high level of public social protection exempted companies from having to provide employees with costly welfare benefits. Swenson dispels the "equivalency premise" which states that all workers and all employees have equivalent agendas across the world, i.e. if you are an employer, you would not be in favour of a welfare state. However, in Sweden, employers felt to the contrary. This kind of compromise has positive effects on productivity (Swenson, 2001: 9). As this implies, the social democratic model stresses *compromise* and high levels of *coordination*, i.e. all policies are linked together such as those regarding health, family, the economy, education and the labour market making it principally a "preventative state" that invests in people and education for example (Platzeck *et al.*, 2007: 1). Compromise is a key element of this model, as shall be shown. For development, discipline and an autonomous mechanism to minimize state capture by powerful particularistic interest groups are needed. In the US and East Asia, this discipline is imposed by repressive measures, either through market forces, inflation targeting or repression of consumption. In social democracy, discipline is imposed through coordination.

b. The socio-political and economic conditions of South Africa

The next step in this study is to analyse the historical, socio-political and economic characteristics of South Africa. In 1994, at the advent of the ANC's rise to power, conditions were in fact more conducive to social democracy than at present. For example, the tripartite alliance comprising the ANC, the South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU) was robust. Their ideas and policies were well organized in the form of the RDP that was published in 1994. According to Hirsch (2005: 59), "[t]he document was a blueprint for a productive social democratic haven". It proposed a succession of pragmatic solutions and targets. However, the ANC soon became influenced by the success and/or global demands of neo-liberalism and in 1996 GEAR was implemented, without the contribution of the other members of the Alliance (Southall and Webster, 2010: 142). GEAR policies include "fiscal conservatism, trade liberalisation, cost recovery in the provision of basic services, tax cuts for the rich, and privatisation" (Seekings, 2004: 299). It is unfortunate in a sense that the political transition coincided with the pinnacle of neoliberal popularity, as few other alternatives were considered and the development of a successful class compromise was halted. This begs the question as to whether the ANC is really opposed to social democracy or whether it was merely convinced that it was not viable at the time, which led to the ideological shift. Hirsch (2005) argues that the ANC had no choice but to shift from social democratic principles, but it is argued here that this was, to a greater extent, due to ideological pressure. The ANC did have a choice, and a more pragmatic solution, as described, was available to them The focus on neo-liberalism was followed by renewed interest in the East Asian model, with little attention given to the European model. There clearly represents a gap in the literature, the missing element of which this research project endeavours to expose.

Important socio-political aspects relevant to the next few sections include: the fragmented or informal tripartite alliance and South Africa's fragile democracy; South Africa's dualistic class structure, the South African labour market and its labour surplus; and the "paradoxical" institutional architecture which includes arrangements such as NEDLAC. Socio-economic conditions include low economic growth, high inequality and unemployment, and problems of redistribution. Slabbert (1999 in Adler and Webster, 2000: 1) says that the ANC's major political dilemma is how to achieve "democratic stability and vigorous market-driven growth" in a country with a "high degree of socio-economic inequality". It is argued that this is the dilemma for all sectors, including the government, trade unions, political parties and community organisations. According to Adler and Webster (2000: 3), not one of these sectors has been able to gain full consent for, or impose their development ideas on others. I argue that the failure of each of these sectors in this regard is a direct result of the fragmented policy arena in South Africa. Only what Erwin (2007: 1) calls a '*cross class alliance*', or class compromise will bring about centralization and an end to fragmentation.

At the moment, the tripartite alliance is informal, placing democracy in jeopardy. According to Harcourt and Wood (2003: 82), "South Africa's economic trajectory is not simply the product of global anonymous forces; rather it reflects ongoing contestations between capital and labour". Labour is subordinated at the hands of the state and business (Southall and Webster, 2010: 142). Labour has had some notable successes, including retaining and improving labour legislation, especially the 1995 Labour Relations

Act, securing improved wages, and working conditions in sectors such as manufacturing (Harcourt and Wood, 2003: 82) and pressuring the ANC to deliver basic social services (Harcourt and Wood, 2003: 91). However, the labour movement is convenient to the government, which uses 'talk' to legitimize the workers for electoral support. Labour is currently in a 'catch twenty two'. They hold little clout in a weak alliance, but it would be futile for them to exit the alliance as they would likely suffer an incapacitating split and descend into the political wilderness (Adler and Webster, 2000: 3). However, no alternative exists. Labour and business also seem to be acting ideologically and out of 'special interests', rather than pragmatically. The correct institutions are not in place for pragmatism to be exercised, in contrast to Sweden for example where these institutions exist. In South Africa, we have what Parsons (2007) calls, Industry Collective Bargaining, as opposed to a Centralised collective bargaining system such as Sweden. This ultimately leads to fragmentation and inefficiencies[2].

c. A class compromise

Adler and Webster constructively explain how a class compromise can move all sectors out of Slabbert's predicament. This positive-sum strategy entails opposing GEAR with the aim of reaching a negotiated compromise. Adler and Webster's (2000: 3) class compromise involves three elements: ""regulated flexibility" in which labour and business negotiate variations in employment standards; social citizenship yielding basic income security; and increased corporate taxes to finance social security." The specifics of their idea will be explained shortly. Such a class compromise is in step with Erwin's (2007: 1) argument that a *cross class alliance* is the only factor capable of bringing about a 'National Democratic Revolution' in South Africa that will be able to positively transcend to the economic sphere. The work of Huber, Rueschemeyer and Stephens (1993: 83) reveals that the "level of economic development is causally related to the development of political democracy". The decisive connecting factor according to Huber *et al.* (1993: 83) is the development of the class structure.

However, not all theorists believe in the conclusive theoretical superiority of a class compromise. Przeworski (1985) explains how social democracy's compromise with capitalism is forever an impediment on social democracy's success. He explains that social democrats continually find themselves in a contradictory situation. They strive for a more just distribution of incomes and property, but before they have anything to distribute, they need to produce (and therefore cooperate with capitalists) (Przeworski, 1985: 41). According to Preworski (1985: 41), "[h]aving strengthened the market, social democrats perpetuate the need to mitigate the distributional effect of its operation". Seekings (2004:

[2] A case in point is the education sector in South Africa. Seekings (2004: 305) illustrates how teachers unions (especially the South Africa Democratic Trade Union) coerced the government into agreements that have had "real benefits to teachers but a range of direct and indirect costs to the quality of education". Substantive increases in funds have been allocated for poor schools, but most of this has all gone to teacher's salaries and not to improving quality (Seekings, 2004: 308). At the time of writing, Seekings (2004: 308) said that teacher's salaries absorbed 90% of the education budget.

300) describes this fundamental compromise as the process whereby the "working class conceded its demand for the socialisation of the means of production in return for the capitalist class accepting a high level of redistribution through the budget". According to Przeworski (1985: 42), "[g]eneral affluence can be increased if capitalists are made to cooperate and wage-earners are continually disciplined to wait" (Przeworski, 1985: 42).

Przeworski's argument may be critiqued on two grounds. Firstly, he sees increasing the productivity of capital as a diametrically opposed endeavour to increasing welfare. However, as mentioned by Platzeck *et al.* (2007: 1) social democracy is a "preventative state". My argument presented here is that by increasing the productive power of human capital though improvements in health care, education and training etc, you are simultaneously increasing welfare. The more skilled the workforce, the less the state will have to provide in terms of benefits. Estevez-Abe, Iversen and Soskice (2001: 145) present a concurrent argument and states that "social protection aids the market by helping economic actors overcome market failures in skill formation". Their research seriously challenges the popular notion that social protection is simply "inefficient forms of labor market 'rigidities'... Social protection can provide important competitive advantages" (Estevez-Abe *et al.*, 2001: 176).

Secondly, Przeworski sees class compromise as a consequence of social democracy. However, it is viewed in this research paper as having an essence of its own that is desirable. The connotation of the word 'compromise' seems to imply a less than optimal strategy as it implies some kind of sacrifice. Here, the nature of a compromise has a positive connotation in that the compromise itself will bring about the most optimal solution. The social democrats that he described could be more likened to 'Keynesian liberal democrats' as opposed to social democrats who possess an essence of their own.

We return briefly to the specifics of Adler and Webster's class compromise. Regulated flexibility entails more flexible employment standards to provide business the incentive to enter into the compromise by being able to 'hire and fire' more easily. It also provides the incentive to invest more in workers as "inflexibility may encourage employers to choose labour-saving technology, to subcontract work, or to employ undocumented workers" (Adler and Webster, 2000: 3). However, business will need to compromise in the form of higher corporate taxes. The incentive to do so is that these taxes will allow the government to increase unemployment protection for workers, taking this responsibility off the hands of firms. Workers will be more obliging to this flexibility when their concessions can be offset by public benefits. Firms will help to fund the state's "redistributive and productivist welfare policies" (the social citizenship element). *Regulated* flexibility refers to the stipulation of the terms of concessions (that must be determined in negotiations) through the current industrial relations institutions (Adler and Webster, 2000: 3). This compromise will simultaneously address "many of the conditions necessary for improving productivity alongside a modest redistributive mechanism for the poor and unemployed and some compensation for those workers who have made wage and labour standards concessions" (Adler and Webster, 2000: 3).

d. Stumbling blocks

Establishing what needs to be done, is very different to actual implementation. In South Africa's case, there are many stumbling blocks which may hinder this kind of compromise from coming about. In terms of Adler and Webster's class compromise,

they feel that "the parties do not perceive that the benefits of compromising outweigh the costs of standing fast" (Adler and Webster, 2000: 3). The state may lack the capacity and resources to execute the ambitious role as outlined above. Labour may lack the capacity to use the institutions it helped create effectively. In the community sector, the plurality of competing interests and its relatively embryonic organizations are problematic. Business associations are "not encompassing", and tend to be unable to discipline their members (Adler and Webster, 2000: 3).

Other stumbling blocks identified in the research process are as follows. The first is ideological: the fall of the Soviet Union and the rise of neo-liberalism have squeezed social democracy ideologically. It represents a fear of socialisation, i.e. that social democracy is a slippery slope to socialism. Even though the theoretical and economic model of social democracy itself is efficient, it seems to be at the mercy of other social and ideological factors that are ultimately suppressing it. Perhaps after the recent financial crisis, those involved in the development debate should seize this moment. Secondly, *a priori* it makes sense that resistance to the system stems from the fact that it is 'in the middle'. It is not reducible to simplistic features, like for example, the state or market or left or right. It represents Przeworski's weak notion of 'compromise'. Thirdly, this paper has advocated state autonomy as a necessary prerequisite for development. However, Fryer (2009b: 20) explains that caution should be exercised in the case of developing countries. According to Fryer (2009b: 20) state autonomy can be risky for developing countries because of the "extreme danger of the state being captured by narrower elites". Again, a strong, democratic, cooperative institutional framework will be needed to prevent this, but with this comes institutional challenges as shall be explained below. Another argument against autonomous models such as social democracy is that globalisation is deleterious to the national options that social democratic governments have available to them (Platzeck *et al.,* 2007: 1). I argue that the opposite is true. Esping-Andersen (2002 in Fryer, 2009b: 19) in fact shows that ironically, it is the liberal system that globalization has undermined, not the Swedish model and other alternatives to Anglo-Saxon capitalism. In the US and UK, "employment structures have hollowed out and welfare regimes withered away" (Esping-Anderson, 2002 in Fryer, 2009b: 19). The so-called 'globalisation thesis' involving increased openness of trade, claims to be the cause of a 'race to the bottom' in wages and welfare regimes. This thesis is undermined as many models of countries such as Sweden and Germany have kept the essential factors the same. In Sweden, this is in large part due to the social democratic idea of "social protection as a productive factor" (Hemerijck, 2002: 17 in Fryer, 2009: 19). Wade and Veneroso (1997: 12) illustrate that when the East Asian countries opened up their capital markets as suggested by the IMF, their system became vulnerable and collapsed in the East Asian financial crisis of 1997. Adler and Webster (2001: 3) also feel that their model of compromise rests on the need for international conditions to be conducive to such a settlement. However, they feel that "economists are increasingly calling for some regulation over the perverse forms of financial instability generated by globalization" (Adler and Webster, 2000: 3).

Another stumbling block is the high level of corruption in both the public and private domains. According to Edigheji (2010: 4), South Africa ranked 55th out of 180 countries in Transparency International's 2009 Corruption Perceptions Index. This ties in with South Africa's lack of a competent 'platonic elite'. Again, if a deep compromise was in place, parties would hold each other accountable, thereby theoretically reducing

corruption. Other social parties would have a greater say in policy and decision making in turn requiring greater transparency and less self-interest.

In terms of institutional arrangements, Adler and Webster (2000: 3) feel that South Africa's scope of institutions in fact suits their vision of a class compromise. South Africa's range of institutions include the National Economic, Development and Labour Advisory Council (NEDLAC), a corporatist institution created for the discussion of a range of public policies; "industry-based bargaining councils and accords, workplace agreements between business and unions, and local and regional development pacts forged in fora that include interests beyond business and labour" (Adler and Webster, 2000: 3). However, whilst the range of institutions provides a potentially successful institutional framework for a class compromise, the reality suggests that South Africa's institutional performance and disjoint is more of a stumbling block. For example, NEDLAC's job was to "reach consensus between government, business, labour and community interests on economic and social policy issues before they were debated in parliament" (Southall and Webster, 2010: 141). However, NEDLAC's role is purely consultative in the forming of major policy. As a result, GEAR was declared "non-negotiable" (Fryer and Newham, 2000: 7). It highlights the disjuncture between 'labour and other policy spheres" (Fryer and Newman, 2000: 7). Its deflated capacity does not bode well for South Africa's chances of fostering compromise and coordination between all sectors and classes in society. Also, as mentioned, the industry specific collective bargaining system in South Africa is causing inefficiencies. Whilst these institutions are present and have the potential to support a corporatist class compromise, a problem lies in the fact that that these institutions exist paradoxically alongside and are subordinated by another set of institutions which have incongruent aims. Mkandawire (2010 in Edigheji, 2010: 17) argues that there were other institutional reforms that took place in the 1990s that accompanied the policy and intellectual shifts that were mentioned. These institutions include "independent central banks, stock markets, property rights, public-private partnership and the whole public sector reform agenda underpinned by the paradigm of 'new public management' promoted by the international financial institutions" (Mkandawire, 2010 in Edigheji, 2010: 17). Whilst these institutions have been essential to the sophistication of South Africa's financial sector and have had successes, they have not lead to maximum development in part because they were "disembedded and were not context specific", i.e. they were not structured in accordance with a greater development strategy (Mkandawire, 2010 in Edigheji, 2010: 17). Their aims are also inconsistent to NEDLAC. Instead of fostering cooperation, they foster repression, in line with GEAR's agenda, i.e. to limit expenditures according to the budget, "reduce the budget deficit, stabilize the exchange rate, tighten monetary policy to curb inflation, privatize state assets, relax foreign exchange controls, and reduce and homogenize tariffs". This is done to "facilitate growth by provided a stable economic environment to encourage private sector investment" (Harcourt and Wood, 2003: 79). As a result we have what Mkandawire (2010 in Edigheji, 2010: 17) calls an "anaemic regulatory state" designed merely for restraining social actors. What South Africa needs is a deep seated compromise facilitated by a well-functioning institutional arrangement. "The lack of vision is reflected in the disjuncture of actual policy: macroeconomic policies have embraced the mould of neo-liberalism, while labour law has been quasi-corporatist. There is a sense that these two policies were constructed in glorious isolation" (Fryer and Newham, 2000: 4).

Lastly, democracy is messy, and the concerned parties seem unwilling to get their hands dirty. A compromise involves pleasing many different people with different agendas. An ideal compromise that solves what Traxler (2003) calls, "horizontal" and "vertical" problems, is very difficult to implement. It is almost easier to be relatively authoritarian in order to get things done instead of having to consult with all parties on every level. As reiterated by Wood and Harcourt (2003: 79) "Indisputably, the currency of neo-corporatism is that of messy compromise."

e. Future possibilities

Firstly, South Africa needs to break the mould as the East Asian countries did by designing a broader developmental policy specifically for South Africa. As expressed by Fryer and Newham (2000: 4), the deep-seated problem is that South Africa has "never really had a vision of development and is bewildered as to exactly what to do" (Fryer and Newham, 2000: 4). This is partly due to the fragmented policy arena where there are competing aims and strategies. That is why a class compromise basic on principles of democratic governance, would be a viable way out of this predicament. It is at this juncture that the social democratic model enters as a useful model of comparison. It illustrates the need to get the "political side right" by measures of cooperation, pragmatism and compromise. The only way that South Africa can pursue a coherent and collective development strategy is if it entrenches the interests of all parties. Of course these interests will be based on the interests of others, i.e. a Nash equilibrium at the national level so to speak. This will ultimately be an optimal way forward. Policy makers need to take advantage of the current ideological sea-change, so as to reinforce the idea that social protection can bring about, not hinder increased productivity. This links to a useful paper by Evans (2010), in his which he devises a 21st century 'developmental state. He emphasises the need to build a model based on improving people's capabilities, i.e. "the capabilities approach" as pioneered by Amartya Sen (Evans, 2010: 41). Evans (2010: 41) advocates that South Africa's new development strategy be centred on the service sector. Human capital is a large untapped resource in South Africa. Improved well-being is dependent on the service sector becoming a source of new well-paying jobs that reflect the level of real productivity of workers. "The centrality of services creates a new set of challenges for the developmental state, forcing the state to focus on people and their skills instead of machines and their owners" (Evans, 2010: 42). This is exactly in line with the objectives of the 21st century 'preventative' social democratic state as advocated by (Platzeck *et al.*, 2007: 1). The 'preventative' state essentially invests in human capabilities. The primary focus of this model should not be the welfare state. There does need to be some state support, but dependence on social state benefits is not considered the primary aim of social democratic policy (Platzeck *et al.*, 2007: 1). Rather, an investment focussed social state pursues a policy of creating decent and equal opportunities for all, thus ensuring they can lead their lives independently. There also needs to be an increased awareness in the new direction of research in comparative political economy that places the firms at the centre of the analysis, i.e. it explains what social policy means to the firm. These arguments are fleshed out by *inter alia*, Swenson (2002), and Estevez-Abe *et al.* (2002). Contrary to popular belief, Swenson (2002: 9) illustrates how the whole social democratic ideal in Sweden was orchestrated largely by employers' interests. Business has powerful clout in South Africa. A realisation of this argument by business could

fundamentally enhance the possibility of business 'buying in' and bringing about a compromise between the state, labour and business.

4. CONCLUSION

This paper set out to enhance the developmental debate in South Africa. This was done by exploring the developmental state as pioneered by the East Asian 'tigers' and the social democratic model that came about in Europe and specifically Scandinavia after World War II. These two models are framed within a broader economic and political debate concerning competing visions for development and governance, namely the neo-liberal or liberal democratic model based on neoclassical orthodoxy, and models which advocate a primary role of the state, such as social democracy and the developmental state. The developmental state was discussed due to its prevalence in the current South African development debate. After conducting a literature review on the theoretical underpinnings and historical success of each of these models, this research paper dismissed the East Asian template of the developmental state due to its incompatible political (and therefore economic) arrangements. Although the authoritarian nature of the 'developmental state' is unworkable in South Africa, this model highlights the importance of state autonomy. This was proved by considering the opposite case, the liberal democratic model. It is argued here that liberal democracy may be dismissed as an optimal model of comparison for South Africa on account of its inability to impart positive freedom on individuals, which would prevent a mass participatory movement based on compromise and coordination form coming about. The failures that have resulted from allowing the economy and markets to reign supreme highlight the "primacy of politics", a cornerstone of social democracy. As democracy forms the other branch of state autonomy, social democracy seemed a more compatible, useful and theoretically stronger model for analysis and comparison. After examining the tenets of social democracy, followed by an analysis of South Africa's socio-political and socio-economic, it was established that an essential ingredient to opening up possibilities to South Africa's developmental success was a class compromise. It is argued that South Africa's economic trajectory is in large part due to class conflicts that exist within a fragmented and uncompromising policy arena, as opposed to other arguments which, for example, blame globalisation. An example of a useful compromise was provided by Adler and Webster (2000: 3): "In this compromise workers gain jobs, social security and a voice in decision-making. Business gains a more productive workforce and flexibility conducive to job creation, while committing itself to longer-term productive investment. The state achieves economic growth, increased tax revenues, and stability". However, such a compromise faces severe ideological, socio-political, economic and institutional stumbling blocks that make such a compromise difficult to envisage. Further research is required into the possibility of a class compromise and the specific stumbling blocks in South Africa, but this paper argues that two factors could make this a possibility. If a compromise could be devised based on the *interests* of all parties, then it seems a reasonable possibility. The difficulty is making the parties realise the benefits of such a compromise. This is where the second factor comes in: an autonomous state. The dominant party position of the ANC might be beneficial here as it allows them enough leeway for the state to kick start this process. The ANC too needs to realise that it will benefit immensely from such a compromise. A 'preventative state' which improves the capabilities of its people will

improve livelihoods and South Africa's economic performance. This will do wonders for the ANC's track record. Increased pressure on the state is also required from all sectors, especially business. Ultimately, a bold move is required, and the changing global environment seems a good time for the ANC to revert back to its pragmatic visions pre-GEAR. It is therefore concluded that social democracy is a useful model for comparison. It crucially alerts us to the "primacy of politics" and that economists need to take cognisance of the socio-political context in which their policies are formed, or else the futility of economic policies will prevail. Therefore, although it should not be seen as a panacea, or a one-size-fits-all template, it is recommended that the pragmatic social democratic model inform the development debate in South Africa to a greater extent, as it once did.

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