

The case for a social democratic compromise†

Introduction

In this chapter it is argued that a South African version of social democracy is the only system, under the present circumstances, capable of ensuring political stability and economic progress in this troubled country.¹ The siege economy and radical socialism – the two options which in my opinion are most likely to be realized and in that order – understandably have a strong appeal to different constituencies in South Africa, but neither is capable of delivering what is promised.

The case for a social democracy is firstly based on *historical evidence*. The existing social democracies² have been more successful in eliminating economic and political domination, whilst at the same time maintaining high rates of growth relative to either the more radical socialist or the more conservative capitalist systems. However, valid points of criticism can also be raised against some aspects of these social democracies. This chapter argues that South African circumstances require the evolution of a version of social democracy with a more radical approach to issues such as land redistribution and the democratic control of elected representatives.

There are also pragmatic considerations favouring a South African social democracy. At present it is the only type of system which could emerge from a negotiated settlement. Both the socialists and the free marketeers who favour a settlement would rather see the conflict escalate than settle for the opponent's economic system. Many within these opposing groups may, however, reluctantly accept a social democracy as a compromise solution, rather than see the continued destruction of South Africa's economy and the escalation of military conflict into a full-blown civil war.

A third argument for a South African social democracy is the contention that it would be far more successful in eliminating racial domination and in enhancing the power of black South Africans than the traditional socialist systems. Old-style Marxists would dispute this, but they have a very unsophisticated understanding of power and domination.

Although I have no doubt that a social democracy would best serve the interests of most people in our land, there are a number of reasons why it is unlikely that this system will emerge from the present confrontations. But the future is not predetermined. In the end, significant groups of actors may opt for a social democracy, even if only reluctantly, and South Africa could then realize her not-insignificant economic potential.

Many liberal South Africans believe in the 'free marketeer' solution to South Africa's economic woes. This 'solution' does not merely imply a free market (an institution which is an important pillar of social democracy) but also a nightwatch government which refuses to intervene on any level to rectify market failures and historical injustices. In the specific historical circumstances in which South Africa finds itself, this solution has as little chance of success as the tricameral parliament. It is foolish to believe that black South Africans would tolerate a perpetuation of white economic domination once white political domination has been brought to an end.

The changing nature of social democracies

In this section an attempt is made to explain the concept 'social democracy' by describing it in terms of the actual systems which have evolved in countries where social democratic parties have held sway. One cannot turn to the blueprints contained in the original party programmes. Social democracies as they exist in Europe today have turned out to be of a radically different nature from what was foreseen at the birth of the social democratic movement.

During the first few decades of this century (and until very recently in the case of some countries) the end goal was to achieve fully-fledged socialism, including the nationalization of larger enterprises. Social democrats broke ranks with the more radical socialist groups, not in rejecting this goal, but in arguing that socialism could be established gradually through democratic processes. Revolutionary changes, the social democrats argued, would be counter-productive.

Today virtually all social democratic parties have turned their backs on this end goal as an essential component of a socialist and democratic society. In his speech to the meeting of the Socialist International held in Stockholm in June 1989, the Swedish Prime Minister, Ingmar Carlsson, argued that the goal of social democracy is to establish political control over the means of production, and not necessarily collective ownership. 'He just about declared collective ownership dead,' a Swedish newspaper concluded, quoting the following comments:

What we have seen in eastern Europe, for example, shows that a formal take-over of the means of production did not in any way guarantee the realization of the socialist goals of liberty, equality and solidarity.

In the communist system, as in the case of unbridled capitalism, people are suppressed by power cliques over whom they have no influence. They are exploited to realize goals which were set without their participation (*Svenska Dagbladet*, 1989, p. 5).³

But if socialism for the modern social democrat is not primarily the collective ownership of the means of production, what does it in fact entail? In general the intention is to ensure democratic participation in setting the priorities for society in both the social and the economic spheres. Social democracy is a system committed to a process whereby an attempt is made to develop a consensus on economic policies acceptable to a wide spectrum of groups and classes in society. The twin goals of this exercise are to *enhance overall economic welfare* and to create a much greater degree of economic equality, or to put it differently, to *eliminate economic domination*.

In the practice of European social democracies this approach has found its expression in *welfare state* measures providing national health and social security for all; *social investments* ensuring equal access to good education and health services; *intervention in the labour markets* to regulate negotiations between the trade unions and industry and commerce; *consumer protection* legislation; legislation to *protect the environment*; and many other interventions in and modifications of the market economy.

Socialism in the dictionary of modern-day social democrats does not primarily imply the socialization of the means of production; neither does it imply central or indicative planning. Indeed, social democrats have been more inclined to trust market signals with regard to the relative efficiency of different in-

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dustries than have many more conservative governments. Social democrats are concerned with how the economic benefits are distributed, rather than with who owns the means of production. In practice, the new goal of ensuring a greater degree of equity in the distribution of income and wealth, and a greater degree of democratic control has primarily been realized by redistribution out of growth.

Although there was a time when many of them would deny it, social democratic parties accept that there is a trade-off between redistribution and economic growth. However, in the early phases of social democracies, much of the redistribution took the form of the social investments with a high economic return, such as the establishment of efficient education and health systems. There is much to indicate that these investments increased the productive capacity of social democratic countries in the long term and thus contributed to higher rates of growth. Gunnar Myrdal somewhat over-optimistically claimed that social investment in education and housing, which improved the 'quality of the factors of production', had no negative consequences for growth:

By . . . raising the level of national productivity the reforms have themselves provided the additional resources required for making them economically feasible and for securing at the same time further continued social reform policy (Myrdal, 1957, p. 47).

Even in the fully developed social democracies, where a very significant proportion of the economic redistribution which takes place clearly does not have economic returns, the commitment to full employment implies that economic growth remains a major goal. Indeed, one of the reasons for the rapid emergence of the Greens in Germany and later in the Scandinavian countries, was the reluctance of the social democratic parties to sacrifice economic growth for the sake of ecological considerations.

Socialism for social democrats implies a system in which the trade unions play a central role in determining the economic scenario. Although there is no significant long-term indicative planning similar to that of the French and the Japanese, possible annual growth rates and the effect of different rates of increase on wage packets are carefully calculated when wage demands are considered. In Sweden, because of the very high premium placed upon full employment, trade unions even acquiesced in falling real wages during the 1980s, in order to increase the economic growth rate. As a consequence, unemployment in Sweden is today under 2 per cent. It does not follow that consensus is regularly reached in central negotiations between the trade unions, the employer organizations and the state. Nevertheless, because of the central role that the analysis of macro-economic potential plays in wage negotiations, a short-term consensus is not uncommon, and differences when they do arise are often marginal, even though the longer-term goals may differ substantially.

Although most pricing in social democratic countries is left to the market, a number of central prices such as the interest rate and the exchange rates are controlled. In some social democracies, part of the financial sector has also been nationalized. The rules of tax-free investment funds enable the government to encourage private sector investments in a counter-cyclical fashion. Various degrees of control are exerted over foreign exchange dealings and foreign multinationals have at times been limited to 50 per cent control of their subsidiaries in social democratic countries. Fairly convincing arguments have been put forward to show that a number of these interventions are no longer as successful as they used to be, and that some of them may be counter-productive at this stage of development. Nevertheless, the evidence seems to be quite clear that at certain stages most, if not all, of these measures benefited economic development.

In social democratic countries labour unions play a central role, not only in setting the overall macro-economic agenda, but also in determining the day-to-day working conditions on the factory floor. In recent years trade unions in most social democratic countries have, in terms of co-determination or a *mitbestimmung* approach, been given access to the boardrooms. During the past decade or two, democratization of economic management has, within the country and within firms (rather than collective ownership) become the cornerstone of the socialism of social democratic countries.

An evaluation of right and left-wing critiques of social democracy

Right and left wingers have standard objections with which they dispose of any suggestion that South Africans should consider a social democratic compromise rather than their respective versions of the true faith. It is necessary first to respond to these general arguments before the case for a social democracy for present day South Africa is developed. Although some of the questions raised by the critics do deserve serious answers, the inability of both sides in the debate to learn from the history of the twentieth century, and their dogmatic adherence to outdated nineteenth century social science concepts, would have been amusing had the commitments and actions which flow from these ideas not been so potentially catastrophic for our country.

In analysing the free marketeers' and the radical socialists' criticism of the social democratic model, no attempt is made to deal with the substantive aspects of these alternatives. The temptation to attack the philosophy and the alternative model of the free marketeers has been resisted, for there is no possibility whatsoever that this model will be implemented in South Africa under present conditions. Some of the theoretical underpinnings of the Marxist socialist model are questioned, but even though this type of model is most likely to emerge if a compromise is not reached in the next couple of years, it is not possible within the limits of this essay to systematically discuss the problems associated with it.⁴

The free marketeer critique of social democracy

In an obvious reference to Childs' (1936) *Sweden, the Middle Way*, Hayek (1944, p. 33) attacked the conviction 'that it must be possible to find some Middle Way' by claiming that:

Both competition and central direction become poor and inefficient tools if they are incomplete; . . . a mixture of the two means neither will really work and . . . the results will be worse than if either system had been consistently relied upon.

The success of social democracies in the past 50 years has shown that this particular mix does work, and from the perspective of the great mass of people it has worked much better than the centrally planned economies and those free market economies in which government showed no concern whatsoever to correct market failures. Sweden, the first country to successfully implement Keynesian demand and anti-cyclical investment policies, avoided the depths of the depression in the 1930s and the high levels of unemployment of the 1970s. Although it is accepted that in the modern world economy Keynesian policies applied in one country only can have but limited success, the principle of democratic reflection on the economy and correction of market failures (where the economic instruments permit such intervention) continues to be applied with a considerable degree of success. To adhere dogmatically to Hayek's assertion, as some present day free marketeers do, is to ignore the history of the past 50 years.

More sophisticated conservatives have accepted the argument that social democracies have worked, but reject the sugges-

tion that they therefore present a suitable model for South Africa. They argue that only mature economies can afford the luxury of such a system.

This argument is clearly correct if a plea for a social democracy is taken to imply that the same types and levels of welfare expenditure found in developed countries must apply in South Africa. However, 60-70 years ago, real per capita income in Sweden was not dramatically different from South Africa's today. A social democracy in South Africa would give priority to exactly those types of social welfare and investment expenditure which were high on the agenda when social democratic parties began to have an influence on policies in northern Europe. (In addition, because of the legacy of the apartheid economy, more radical measures – some of which are referred to below – will need to be considered.)

A third set of objections from the right has to do with the general contention that social democracies, although they show a great concern for market failures, ignore the consequences of government failures. More specifically, it is argued that the *high level of taxes* needed to finance social democratic expenditures present a *formidable disincentive* to engage in economic activity; that *private enterprises* are far more efficient than *state-run enterprises* and, more generally, that the share of the government in the economy is, under social democracies, reaching a level where it *smothers all economic activity inter alia* because the private sector is crowded out of the financial markets.

Recent adjustments and modifications in the policies of social democratic parties indicate that social democratic governments accept that these points of criticism have some validity.

With regard to the higher marginal tax rates, social democrats have often taken their cue from the arguments expressed by Keynes in a famous passage in his *General Theory*:

For my own part, I believe that there is social and psychological justification for significant inequalities of incomes and wealth, but not for such large disparities as exist today. There are valuable human activities which require the motive of money-making and the environment of private wealth-ownership for their full fruition . . . But it is not necessary for the stimulation of these activities and the satisfaction of these proclivities that the game should be played for such high stakes as at present. Much lower stakes will serve the purpose equally well, as soon as the players are accustomed to them (Keynes, 1936, p. 376).

The basic premise that the stakes for the higher income groups can be substantially lower than they would be under a free marketeer regime without there being any significant disincentive on work, is accepted by all social democrats. It is the basis of progressive income tax policies all over the world. On the basis of experience in social democratic countries, it is today, however, increasingly admitted that marginal tax rates should not be much higher than 50 per cent. Marginal income tax rates of 80 per cent or even 90 per cent can clearly become significant disincentives. Rates of this magnitude also encourage large-scale tax avoidance and evasion, as bitter experience has taught some of the social democratic regimes. In recent years marginal income tax rates have thus been brought down. Social democratic countries have, however, continued to exploit other avenues of redistribution, such as higher inheritance taxes and progressive rates on property, which do not have the same marked negative consequences as do high marginal rates of taxation on income.

The validity of some of the arguments in favour of privatization has also been accepted by most social democratic parties, and some social democratic governments have themselves had vigorous privatization programmes, but only in

those areas where privatization seemed to be in the interest of all. At the same time, there is still a strong conviction among social democrats that many activities can be handled more efficiently by governments than by private enterprise. The centralized pension scheme in the Scandinavian countries can, for example, be shown to be far more cost-effective than the multitude of individual pension schemes one finds in South Africa. In some instances there is a strong case in favour of a mix of privately owned and state or co-operatively owned enterprises. The co-operatively owned supermarkets and the government-owned postal bank in Sweden are, social democrats admit, more efficient because they face private competition. At the same time their participation in the market prevents the formation of cartels (at a high cost for the consumer) by the big oligopolies that dominate these sectors. On the basis of the experience of the social democratic countries, one can thus reject the dogmatic assertion of the free marketeers that all state-owned enterprise ought to be privatized.

Both right-wing and left-wing critics of social democracies have argued that the share of government in the gross national product has reached a level at which economic growth is being seriously undermined. In the early 1970s, left-wing critics of social democratic systems argued that there was no remedy to the fiscal crisis – short of an overthrow of the capitalist system. They argued that social democracy bought legitimacy for capitalism by the welfare state measures, but with government spending amounting to virtually 60 per cent of the net national product in the case of some countries, this process could be taken no further. It was economically impossible to further tax capital, and politically impossible to roll back the welfare state.

During the subsequent decade some social democratic governments seemed to have succeeded where their radical critics predicted that they would fail. The Australian Labour Party strongly embraced privatization to roll back the state. The Swedish economy was given a respite by the labour unions acquiescing, as noted, in a stagnant and even falling real wage. The success of some social democratic governments in reducing the role of the state confounded the predictions of left-wing critics, but was oil on the fire of the right-wing faith that the role of the government must be drastically limited.

In response to the general argument in favour of limited government, social democrats again argue in favour of a Middle Way. Social democratic parties world-wide accept that there is a real danger of destroying the economy by over-extending the role of the state. On the other hand, the conservative contention that the share of the state should not exceed one quarter of the national income, is rejected as having no scientific foundation. After all, many social democratic countries have shown sustainable high rates of growth, even though the government's share in income has often been more than 50 per cent (see Wilson's chapter).

There is clearly no simple correlation between the share of national income directed to government expenditure and the growth rate. The efficiency of a country's civil service, and the type of expenditure undertaken, are factors of far greater importance than the actual level of expenditure (for example, expenditure on imported military hardware is very unlikely to have the same economic returns as expenditure on basic health, primary education and a better transport system). To place absolute ceilings on the share which the government may have in the economy, as the free marketeers are proposing, is to deny the government the role of redressing past injustices and dealing with the large-scale problems of poverty in South Africa. Political stability and economic growth require that 'human capital' investments be made in the interest of those who have for so long been excluded from the benefits of the economy.

A right-wing argument against social democracies (often also made in somewhat different language by Marxists who wish to justify the undemocratic nature of socialist regimes) is the following:

... where in the world have you seen a country making a successful industrial take-off under a system of complete voting equality. It most certainly did not happen in Germany or Japan. Nor did England or the United States have equality of vote during industrial take-off. For if all have the same say during such a period, they devour all the products of the society and no savings can be effected to ensure industrial growth (Rupert, 1962).

This argument, which has also been put forward by Lord Bevan and others (Myrdal, 1957, p. 46), might under certain circumstances have had some validity. Particularly in the early stages of development, authoritarian regimes have at times been able to mobilize a surplus for reinvestment which might not have been possible under a democracy. However, under the present circumstances in South Africa, as Dr Rupert himself seems to accept, the lack of political participation by the great majority of South Africans has become a serious obstacle to growth. The political instability and international pressures on South Africa will not abate until democracy has been extended to all. For the same reasons, the inward industrialization strategy will have little success, even though it is economically more progressive than the free marketeer strategy. The denial of democracy, where it is a goal to which many of those who are excluded are committed, undermines the effective functioning of the economic system.

General arguments that social democracy cannot work, or cannot work in a country which is not fully developed, ignore the historic evidence. On the other hand, arguments by free marketeers which point out failures in government have, in those instances where they have clearly had validity, been taken seriously by social democrats. As a consequence the social democracies are today far less centralist than intended even only a couple of decades ago.

The radical critique of social democracy

During the 1970s and early 1980s predictions of the imminent collapse of welfare states were rife amongst left-wing critics of the Middle Way. It is indeed ironic that the 1980s turned out to be the age of the crisis for traditional socialism. However this does not mean that the radical criticism of social democracy can be disposed of simply by arguing that the socialist countries have not been doing well.

Three types of criticism have been levelled at social democratic systems from within Marxist circles. The first has to do with the contention that the social democracies cannot successfully realize the goals they have set for themselves. The second is based on the claim that social democracies are statist and undemocratic, and the third accuses social democrats of masking reality from the workers so that they do not perceive the injustices of welfare capitalism and the truths of Marxism.

The social democratic claim that their system is the *most efficient in eliminating domination and exploitation* is contested by Marxist critics. The prediction that social democracies would be destroyed by the fiscal crisis has already been dealt with. Clearly it did not come true. However, social democrats dealt with the crisis by reversing trends which had become well established over years. In some instances the share of wages in national income had to be diminished; enterprises under control of the state were privatized; the long-term trend of steady per capita increases in state expenditure on welfare had to be reversed. The fiscal crisis was overcome, but in the process the hope of left-wing social democrats, that the slow

evolutionary march forward would in the end still lead to full scale socialization of the means of production, has taken a severe knock.

Marxists could respond by pointing out that the social democracies have survived the fiscal crisis only by sacrificing the socialist ideal of eliminating capitalist exploitation. And this is clearly the case if one defines exploitation and domination in nineteenth century Marxist terms, for Marxist exploitation continues to exist when one has private ownership of the means of production. However, for social democrats the concern is not whether a surplus accrues to private owners of the means of production or not, but whether the workers' standard of living improves and whether their control over their working conditions is enhanced.

The problems social democrats have with the Marxist conception of exploitation, power and domination are similar to those raised by Anthony Giddens (1979, 1981, 1985) in his monumental attempt to develop a synthesis of the valid insights of the various social theoretical traditions.

Exploitation is a concept which, according to the position adopted by social democrats, should have a more encompassing notion than is to be found in Marxist analysis. Exploitation is domination,⁵ both in the political and in the economic spheres, that is harnessed to sectional interests. Indeed, as Ingmar Carlson also argued at the Socialist International referred to earlier, flagrant domination of one group by others continues in the communist countries in spite of the nationalization of the means of production. Furthermore, history has shown that economic exploitation has less to do with who owns the means of production than with who controls the allocation of the surplus. From their understanding of exploitation and domination, it follows that the extension of bourgeois democracy, rather than its elimination, should be given a high priority. Hence the high premium social democrats place on a pluralist democracy.

The social democrats do not only contest the Marxist conviction that domination is exclusively a question of class domination. They also reject the Marxist conception of the struggle for power as a zero sum game. For example, in the economic sphere a successful compromise between the different classes can result in the economic power of all groups being enhanced. Economic growth can be to the benefit of both the capitalist and the workers. The old Marxist faith that the eventual immiserization of the workers is inevitable, is rejected as being in conflict with the history of the social democracies and as a vulgar functionalist hypothesis.

As a consequence of these differences, social democrats claim as victories adjustments in the system which Marxists would scorn as temporary gains or as co-optation strategies of the capitalist classes. For example, for social democrats there is significant progress if workers are able to influence most of the major decisions a company takes and even veto those with which they cannot agree; and if their wages continue to increase, even if the rate of exploitation (in Marxist terms) simultaneously increases.⁶

The social democratic concepts of power, domination and exploitation are virtually identical to those of the new generation of sophisticated post-Marxist, post-Weberian social theorists. Marxist accusations that social democrats in fact perpetuate capitalist domination and exploitation only make sense if one accepts the nineteenth century Marxists' definitions of these concepts. The theoretical foundation on which old-style Marxism is built, is crumbling away. In the process the pragmatism of social democrats is, *ex post facto*, acquiring a great theoretical coherence. In practice social democrats developed an understanding of exploitation, power and domination which,

though scorned by the Marxist purists, is now acquiring a theoretical rigour and dominance in the social sciences.

Whereas Marxists usually criticize social democracies for failing to bring economic exploitation to an end, Nicos Poulantzas (1983, p. 601) accused social democracies of weakness in the very area where they are usually regarded to be the strongest:

... social democracy and Stalinism ... exhibit a fundamental complicity: both are marked by *statism* and profound distrust of mass initiatives, in short by suspicion of democratic demands.

If one reads this accusation to imply that the suspicion of popular demands in social democracies runs as deeply as it does in a Stalinist country, one cannot but respond to Poulantzas with a certain degree of incredulity. Social democracies have, whatever their shortcomings might be, shown a healthy respect for democratic procedures. However, Poulantzas does have a point (as do libertarian critics of social democracies) when he accuses social democracies of statism. The system of proportional representation prevalent in most social democratic countries, together with the significant influence of trade unions on wages, conditions of work and types of investments undertaken by the business sector, do indeed ensure that a far broader spectrum of people are involved in the making of decisions than is the case in many other democracies. However, particularly in those countries where social democratic parties have been in control for long periods of time, social democrats have implemented programmes and policies against the wishes of the majority, in the confidence that, when election comes, they will again be able to muster the support of the majority of voters.

The inability of the electorate to have a significant influence on those decisions not likely to influence the loyalty of the electorate at the next election, can only be overcome by the Swiss system of referendums and initiatives, for this enables them to challenge decisions of the government. A decentralization of power to local government is another pre-condition if the people rather than the state are to dominate. Statism is always a danger when government is not directly responsible to the people. In social democratic countries there is usually a fair degree of decentralization of decision-making to local governments, but social democratic parties have shied away from the referendum system which, in the final instance, places power in the hands of the people themselves. Although it is clearly absurd to lump them together with the Stalinists, social democracies are, in this respect, more statist than they ought to be in terms of their own ideals and goals.

A third line of attack from the left is to accuse social democracy of creating a false consciousness amongst the working classes.

The working class does not create spontaneous Marxism in the same manner which it spontaneously creates various forms of defence organization against capitalistic exploitation. The need for such organisation is, so to speak, easily perceived. Such is not the case with the basic Marxist truths (Johnsson *et al.*, 1979, p. 42).

The workers do not realize that their perception is limited, for, as Johnsson and his co-authors admit: 'The social democratic policy works, it ...' (ibid., p. 43). But, of course, from a Marxist perspective, this apparent success is misleading. Workers accept the social democratic compromise and fail to discover Marxist truths. For Johnsson the situation can be rectified by theoretical work. Other Marxists use these types of arguments to justify the need for a socialist revolution. It is argued that the false consciousness of workers can only be destroyed by creating a different socialist reality.

The practical experience of social democratic countries as regards this type of argument clearly counts for nought. However, can the same be said for the experience of workers in existing socialist countries? Do the workers of Poland still need to discover Marxist truths? Do the workers of Poland still fail to discover these truths is blatantly elitist. In most social democratic countries there are active Communist Parties, often with representation in parliament, and workers have been thoroughly exposed to the traditional Marxist perception of social reality. Marxism in these countries has been rejected for the very reason that workers are familiar with Marxist dogma and practice. They are not ignorant of the position of workers in the existing socialist countries (see Scharpf, 1979, p. 43).

Ideology does play a role when dominant groups justify their position. In the case of social democracies, the arguments opposing democratic reforms which will enable the electorate to launch initiatives or veto governmental decisions, can be shown to be of an ideological nature. But to reject the social democratic compromise as ideological, and to assume that the Marxist 'truths', which have served to justify the totalitarian rule of most communist regimes are not ideological, is to refuse to apply valid Marxist insights to Marxist theories.

Social democrats remain committed to socialist ideals: equality, the elimination of economic and political domination, the eradication of capitalist exploitation. In terms of the outcome of the process, a social democracy can justifiably be termed 'socialist'. If, however, systems are classified according to the mode of production rather than the economic outcome, social democracies may justifiably be branded 'capitalist', even though of a very reformed variety.

The radical critique of social democracies, as they have emerged, is not convincing. Undoubtedly, the accusation that social democracies are statist – an accusation which has also been levied by the right – does have some validity. Marxists are also correct when they argue that social democracies have reformed capitalism rather than destroyed it. But to contend that these reforms have not eliminated most forms of economic exploitation, and to deny that both economic and political power has been spread more equally and with much greater benefit to the ordinary worker in the social democracies than in any other system, is to be blinded by outdated, theoretical nineteenth century concepts. It is to deny that the very ideals which Marxism planted in the hearts of the social democrats have been largely realized.

The case for a South African social democracy

This chapter argues that a South African version of social democracy is the only system that has the potential to deal efficiently with the economic crisis faced by South Africa. It does not contend that a social democracy will invariably be the only workable economic system: given different historical circumstances, the economic priorities of many groups and classes may well be better satisfied by other economic systems. But under present conditions both those who in the long term wish to see a free marketeer system and those who favour a truly socialist South Africa, could with integrity support a social democracy as a short to medium-term solution.

The nature of the political and economic crisis confronting South Africa today is such that only a social democracy could come to grips with the underlying problems. After a decade or two there may be a case for arguing, if one is a free marketeer, the case for a Thatcherite type of counter-revolution, or, should one find oneself on the other end of a spectrum, for a more radical socialist programme.

The balance of forces in South Africa are such that neither side can dictate the economic nature of a settlement. Should

the ANC and the Mass Democratic Movement insist that a settlement on the economic front must imply a fairly large-scale nationalization of industry, mining, commerce and agriculture, the white establishment would rather face international sanctions and an increase in the military onslaught, than a negotiated settlement.

A radical socialist solution can of course be implemented if a total victory is gained, but this will only be at the end of a long and drawn-out war waged on both economic and military fronts. At that stage the destruction of the economy would be such that the state may have little choice but to take over much of industry and commerce. The unemployment rate would be so high (50-60 per cent), the housing backlog so immense, malnourishment so rife and public health in such total disarray, that social democratic measures could not hope to meet the aspirations of the people within a reasonable period of time. For these and other reasons discussed elsewhere (le Roux, 1988, pp. 217-18), an old-style socialist system is most likely to emerge if we are to wait for the day that the white political and business establishments no longer have the power to put forward minimum demands for a settlement. Those whites willing to fight to the bitter end because they fear a one-party Marxist state, will be creating the conditions under which such a state is most likely to emerge. As Giddens (1979) has argued so persuasively, we create our own future, but not with the consequences we intend.

The argument that a traditional socialist type of economy, or a mixed economy with a strong bias towards traditional socialism, would be opposed to the bitter end, applies *mutatis mutandis* to a free market economy in which the government would play a limited role. A settlement on the condition that there is a constitutional guarantee that government expenditure may not exceed 25 per cent, would not be acceptable. For black South Africans apartheid is a system both of political and economic domination. They want to end political domination in order to bring an end to economic domination as well. They would rather fight a long and drawn-out battle than accept any preconditions which deny them the right to redress economic injustices rapidly.

If there is to be a settlement soon, it will have to be along social democratic lines. History has taught us this system can radically limit both economic and political exploitation and domination, and at the same time maintain a high rate of economic growth. Although capitalists would for obvious reasons prefer a free market economy in which their position was much more dominant, they could live with this type of compromise. It is, therefore, a system which is likely to meet the minimum aspirations of all concerned.

Clearly a social democracy would broadly be modelled on the existing social democracies. But it would be foolish to attempt to predict its exact nature, for a social democracy is not a clearly defined system. It would emerge from the process of negotiations before and after liberation. A South African social democracy would be likely to resemble to its European predecessors in many respects. For example, during the initial phases social investment would be concentrated in areas of high return such as education, primary health care and basic housing. Although some of these investments could possibly be financed by savings made as a result of dismantling apartheid structures, there would also be a need for additional finance. As in the case of other social democracies, this would be found by imposing capital gains taxes, higher inheritance taxes, and other taxes on wealth. Care would, however, have to be taken not to raise taxation to a level where it could undermine the growth potential of the economy, for much of the required redistribution would have to take place out of growth.

In some respects, a South African social democracy is likely

to be more radical than the established social democracies. Firstly, given the great degree of political conscientization which has taken place during the past decade, direct access to political power via a referendum system allowing for popular initiatives and vetoes could well be part of this system. Secondly, given the history of injustices, certain measures of retribution may take place particularly with regard to the land issue. Demands that the land of absentee landlords be redistributed to black farmers and co-operatives may well be implemented, and financial awards may be paid to those who were removed under the Group Areas Act from prime land.

Although a S. African social democracy may seem to be far too radical from the perspective of many of those who find themselves in the white establishment, and far too conservative from the perspective of the Marxist revolutionary, there is little doubt that it would be a system which could function to the benefit of all. If S. Africa were to again achieve an annual average GNP growth rate of above 5 per cent, and taxes were so structured that approximately 1 per cent of this rate of growth benefited the (mostly white) middle classes (some growth in income being necessary in order to stem the emigration of skilled workers), then the income of the (mostly black) poor, who presently receive only one-third of national income, could grow at an average rate in excess of 10 per cent per annum. Direct food subsidies, nutrition clinics, etc. could furthermore target support to those whose position was so desperate that a 10 per cent per annum increase would not suffice to meet basic needs. Clearly those at the bottom of the ladder would benefit more dramatically than those at the top. But virtually all⁷ would benefit relative to what their position would be if there were an extended siege economy followed by a radical socialist system.

It cannot be assumed that South Africa would necessarily grow at the average annual rate of 5 per cent or more (which is required if the social democratic compromise is to work). Certain conditions would have to be met. *Inter alia*, an important precondition to settlement should be a firm commitment to specific types of support from the international community, for example, the rescheduling of some and the writing off of other portions of South Africa's international debt, and the preferential access of her agricultural products to the European Community Market. After settlement there will be little interest in South Africa, and very little of the expected international support will materialize. Furthermore, the level of growth rate needed will only be realized if those within South African trade unions who are presently nurtured on a radical socialist faith, are willing and able to play the constructive role required of them in a social democratic regime. Finally, if the business community does not truly commit itself to this type of compromise, and continues with its large scale disinvestment, it will not be possible for South Africa to realize her economic potential, and the social democratic compromise could fall to pieces.

It is unlikely that a social democracy will be implemented in South Africa under present circumstances. White South Africans are often the captives of their own racist or capitalist ideologies. They either believe that a democracy in an African context could not work, or that no system but a free marketeer version of capitalism could overcome South Africa's economic problems. However, given that the choice available to them is either a siege economy or a social democratic compromise, it is clear that an increasing number of whites are willing to consider a social democracy. Indeed, if a social democratic compromise should unambiguously be offered to them, they may well opt for it, given the international pressures for a settlement.

On the other hand, given the very significant role the Com-

unist Party has played in the resistance movements, it is not surprising that most of the Marxist objections to a social democracy raised in this chapter are prevalent in resistance circles. However, partly as a consequence of what is happening in the Soviet Union, perceptions within the ANC and the Communist Party have been changing and consequently it is difficult to predict what the feelings of the majority of the ANC executive would be, although it is likely that a social democratic compromise, if sincerely offered, would be acceptable to the broad masses. The ANC executive may however find it virtually impossible to take the initiative and suggest this type of settlement, for, should it be rejected, the more radical opposition to the left of the ANC would be able to gain support at the expense of what is today undoubtedly the dominant resistance movement.

Conclusion

The majority of South Africans may potentially be willing to accept a social democracy, even if only reluctantly and as a second choice, but the political dynamics of the situation are such that it is not likely that this compromise will be reached. Whites fear a settlement, because they believe it will be on more radical terms. The liberation movements, on the other hand, find it difficult to offer these moderate terms, even though they may well be acceptable to the masses, for fear that they will lose support to those with more radical objectives if their offer should not be accepted.

Although the political obstacles to an accord being reached cannot be overcome by academic discussions, work which challenges the certainties of opponents of a social democracy may remove some of the ideological obstacles to a potential settlement. Hence this attempt to question the conventional wisdom of those to the left and to the right. The calculated risk of opting for a social democracy is greatly to be preferred to the economic and human costs of a siege economy. Only those on the right and the left who subscribe to the dogmatic certainties of naïve nineteenth century social theories can reject this conclusion.

Jill Nattrass argued in the conclusion to her book, *The South African Economy, its Growth and Change* (1981, p. 344):

The challenge to South Africans will be to make this solution work, to face up to the tough compromises that will have to be made by all parties and to plot a course that can be navigated between the Scylla of dictatorship and the Charybdis of revolution.

The question is whether we will be able to meet this challenge after liberation.

Notes

1. I first put forward some of the economic arguments for this type of system at the 1982 conference of the Economic Society of South Africa (le Roux, 1981) after having read Jill Nattrass' arguments in favour of what she called the social democratic reform option as opposed to National Party reform (Nattrass, 1981, pp. 339-43). See also the HSRC report (Godsell & le Roux, 1986) for arguments in favour of a participating economy which in fact amounted to a version of social democracy. Jill was a member of this committee. Her sharp intellect and strong commitment to honesty and rigour in academic research brought qualities to the intellectual debate which are far too seldom found. I dedicate this chapter to her memory.
2. Sweden and the other Scandinavian countries are the classical examples of social democracies. Holland, Belgium and Austria have also had long periods under social democratic governments. Even in Germany, where the social democrats have been in opposition more than in government, social democrats have had a very significant impact on policy. Canada, New Zealand and Australia, and a number of other countries could also, with some qualifications, be added to this list. In many respects Britain is atypical, *inter alia*

because the trade unions were often of a very undemocratic nature. Indications are that Kinnock's Labour Party is moving closer to the social democratic tradition.

3. My own translation from Swedish.
4. The reader who still believes in old style socialism, is referred to the introductory chapters of *Perestroika* (Gorbachev, 1987) and to Alex Novec's scholarly *The Economics of Feasible Socialism* (1983).
5. Domination can, according to Giddens (1981, p. 60), take place in both the economic and the political sphere, and there can be domination both over human beings and over nature. Although an increasing number of social democrats share Giddens's ecological concern, the focus in most social democratic analysis remains on domination over human beings.
6. Given the fact that high and rising real wages usually call for increasing capital intensity, this usually means that the rate of exploitation in Marxist terms is higher in companies and in countries that pay higher wages. Conversely, given very reasonable assumptions regarding capital intensity (the organic composition of capital), the Marxist rate of exploitation is usually low in a country which is underdeveloped or in a company which pays low wages.
7. Clearly the social democratic compromise is not in the interest of the establishment politician who wishes to cling to power for another decade or two; nor is it in the interest of the radical politician who hopes to obtain the type of totalitarian powers a radical socialist regime would entail.

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