From the MEC to the Green Economy Conglomerate:

Wiring up the green economy and the developmental state

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To achieve a socially inclusive, ecologically sustainable and democratically pluralist economy, South Africa would have to embark on large-scale structural changes, which would include directly challenging the minerals-energy complex (MEC), substantially increasing support for cleaner industries and rural development, and dramatically accelerating the pace of transforming the merged apartheid and neoliberal legacies in education, housing and public transport. Critical political economists doubt whether the government is able and/or willing to execute these structural reforms. The intention of this paper is to detail the factors that frustrate the transition to a green economy.

GROUNDS FOR SCEPTICISM

Critics point to several indicators and drivers of the government's lack of reform. Firstly, although policy makers have been harping and carping since 2000 about the urgency to transform the nature of the South African economy, they have generally insisted that this transformation should not threaten the important objectives of economic growth and sustained development. Fourteen years later, President Jacob Zuma is still saying that a trade-off has to be made between faster economic growth and the preservation of the environment.

> Diversification into more labour-intensive, higher value-added and *greener* products remains the greatest strategic challenge for our industrialisation and is essential if we are to meet our commitment to mitigate carbon emissions.

The government envisages faster economic growth alongside sustainable resource management, but, across two democratic administrations, the language of *green growth* has eclipsed the discourses of *green revolution, resilience and transformation*[1]. The elevation of the "green growth" discourse, coupled with the 2013 National Development Plan's "business as usual" message to the minerals and metals industry, aids and abets a mining industry agenda that is averse to the developmental pricing of minerals, or any other state intervention in mining to improve the competitiveness of the manufacturing sector.

This market-liberal orientation is cold comfort to those who are keen for the government to implement the 25 sweeping policy measures to direct and regulate the extractive sector recommended by the ANC's State Intervention in the Minerals Sector (SIMS) report. The extractive sector, although rhetorically committed to "Putting South Africa first" (the Chamber of Mines' slogan), can bank on an administration that continuously "fails to take on board the extensive work already done by the ANC on options for regulation of this sector", according to the Congress of South African Trade Unions (COSATU). The government seems determined to maintain the servile relationship with the mining industry that has been in place since 1889.

Secondly, the government's continuing reluctance or inability to "challenge and mobilise the underlying economy and political interests" (Ben Fine in *Business Report*, 30 July 2007), rests on much more than vested interests and complicity. International and domestic resistance are major factors, as are the short-term disadvantages of the shift to green policies for the poor, farmers and (unionised) workers. This is evident, for example, in COSATU's 2010 Growth Strategy, which targets 13 economic sectors that will perpetuate the energy-driven nature of the current economy.

Finally, while these "social-social" explanations conceptualise path-dependency politically, "natural-social" accounts contend that natural endowments explain social outcomes: South Africa's natural abundance of coal led to intensive investment in physical infrastructure for coal extraction and energy generation, which was pivotal to funding industrialisation and created a path dependency. Deviating from an industrial strategy rooted in static comparative advantage could, it is asserted, promote unproductive rent-seeking behaviour, weaken or distort growth linkages, and exacerbate balance of payment problems. This thinking has left South African decision-makers unwilling to question the association of economic growth with energy-intensive industrialisation.

Neither the "natural-social" nor the "social-social" doomsayers rule out the possibility of change. The literature also contains "remedies", which emphasise localisation, specialisation and learning.

Some of these envisage a "green economy nirvana", featuring clusters of light, medium-tech manufacturing firms with relatively low investment-to-output ratios and high labour intensities. Others advocate boosting development and structural transformation through a state-led economic and industrial strategy centred on redistributing assets and incomes, stimulating demand and scaling up the social wage.

The intention of this paper is not to critique these remedies, but simply to detail the factors that frustrate the transition to a green economy.

We have seen "economic democracy" re-emerge as both a political label and a political project, aimed at democratising workplaces, finance, investment and the market system in a holistic project to redress structural inequality. Economic democracy hones in on expanding democratic accountability through representation, particularly the expansion of opportunity for direct participation in economic decision-making. At the same time, there seems to be an inability or reluctance to overhaul the inherited regime that sustains our industrial ecology: a conglomerate of *structure*, *perspectives* and *rules*.

PATH DEPENDENCY AND UNSUSTAINABILITY

In the following sections, we sketch the evolution of manufacturing within the development of capitalism in South Africa: the creation of the MEC before political democracy, the financialisation of the economy, and the mutation of the MEC into a financialised MEC (FMEC). We detail the constraints that the interlocked conglomerate of structure, perspectives and rules presents to the installation of a more balanced development strategy. Finally, we present a few strategies and tactics to move from the current impasse to a positive, progressive and productive politics that could leverage and sustain inclusive democratic development.

Structure: economic-industrial-institutional

Historically, South Africa's industrial terrain has been dominated by the so-called MEC sectors – mining and large-scale electricity-intensive minerals processing – that produce either primary or semi-processed commodities. Dating back to the mid- to late-nineteenth century and the discovery of diamonds and gold, a handful of corporations gained and consolidated power in South Africa. By the time of the democratic transition in the 1990s, the MEC was at the core of the economy.

> There is solid scholarship to show that the redistribution of socio-institutional power, via democratic governance and participatory processes, is central to the architecture and implementation of a green society.

Sectors with weak linkages to the MEC were left underdeveloped, as was infrastructure. Diversification into more labour-intensive, higher value-added and *greener* products remains the greatest strategic challenge for our industrialisation and is essential if we are to meet our commitment to mitigate carbon emissions. This is a daunting challenge, made all the more difficult by the ongoing global recession that has placed intense strain on the manufacturing sector and our efforts to simultaneously reindustrialise and diversify.

In the 1980s, neoliberal macroeconomic policies, which preferred to fight inflation rather than

unemployment, caused a reduction in domestic and global aggregate demand. The growth of economies such as Japan and the newly industrialised countries (NICs) intensified global competition in product markets and disrupted the market control of dominant Western multinational corporations. This affected non-financial industrial corporations in core industries such as automotives, chemicals, steel, shipbuilding and microchips, which require huge sunk-costs in irreversible investments. Less able to use retained profits for investment, they turned to financial markets to finance their necessary expansion and economies of scale.

During the 1990s, the widespread liberalisation of finance and cross-border financial flows led to a global expansion of the influence of the financial sector. Volatile surges in unregulated short-term capital flows were associated with capital shifting away from long-term productive investments into service sectors that were swollen by debt-driven consumption and massive speculation in financial and real estate markets. Where business executives were previously motivated to grow their enterprises and to train and retain their labour force, the dynamics of financialisation and the rise of the shareholder value movement drove them to maximise short-term returns. They began to downsize and neglect skills development.

The post-apartheid government in South Africa adopted neoliberal economic policies that facilitated the financialisation of the economy and had a negative impact on industry.

The financialisation of non-financial corporations and South Africa's role in the global economy have further heightened the country's reliance on the mining and industrial firms of the MEC. At the same time, some of the largest of these have become increasingly international and have moved their primary listings abroad.

This has created huge obstacles to the pursuit of economic democracy and environmental sustainability. Indeed, the interests of MEC big businesses have been expanded and entrenched, closing avenues for industrial diversification. Policy makers have focused on large-scale projects to extract resources, slightly beneficiate them, and transport them. These new investments are similar to the old MEC: they have weak linkages with the rest of the economy, require huge amounts of energy and other natural resources, and most of their products are export commodities without much value-addition.

Economic activity in South Africa from 2003 to 2008 – during the period of financialisation and before the global economic crisis – supported the growth of services linked to financial speculation and debt-driven consumption. Capital stock grew in the services sectors and platinum mining, and declined in the value-adding and more labour-intensive manufacturing sectors. There were large declines in manufacturing employment. Although employment in services grew (until the crisis), these jobs were precarious, linked to accelerated outsourcing and informalisation. In this environment, employers prefer flexibility: they do not train employees and replace them with cheaper labour when available.

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In short, the large non-financial corporations have internationalised and moved capital abroad. The economy has become dependent on, and its growth path negatively altered by, short-term foreign capital inflows. The industrial and skills base has declined, limiting the options for future industrialisation and diversification. These developments, and continued large-scale MEC-supporting projects, demonstrate that, in spite of the rhetoric, there is little commitment from either big business or the state to green the economy.

Given the structure of the South African economy and the overall policy and practice of government, which allows the corporations at the centre of the MEC to fashion and align development to their own profit-driven interests, is there any hope of breaking this lock by unearthing and exploiting inconsistencies in the *perspectives* and *rules*?

Perspectives: Mainstream (official) engagements with the green economy

In thrall to the MEC

Movement from a generalised problem statement to specific green-economy programmes is stymied by our government's double-speak of "transformation and preservation", which does not disconnect the

decisive role of MEC structures, relations, processes and agencies from the scope and impact of policy.

In instances where the government has supposedly "managed" the trade-off between coal-fired and renewable energy (e.g. by allowing the growth in coal exploitation to continue parallel with the country's entry into renewable energies), it has also assisted MEC interests to gain a foothold in the renewables sector. This sets the scene for a continuation of the MEC system of accumulation rather than its reconfiguration, as the MEC can use its political agency, through established policy networks, to influence praxis in a manner that protects its interests in and beyond core sectors.

South Africa is also marked by a political establishment that does not (want to) question the association of economic growth with the devastation of natural resources, because it is not in its interests. Movement away from the non-renewable and energy-intensive MEC cannot be disassociated from the state sector, the dominant political party, and key politicians who have interests in the mining and financial and services sectors. For example, the Energy Intensive User Group (EIUG), whose members – including AngloGold Ashanti, Lonmin Platinum, SABMiller and Transnet – use approximately 44 percent of South Africa's electricity, is a highly influential lobbying organisation.

Add to this the financialisation of the MEC – which reinforces energy-intensive industrialisation and thus the coal path – and the stage is set for rank subversion and predatory undermining of the rules of the game (including government programmes and projects), and the abandonment of basic civil and human rights. The massacre of 34 striking miners at the Marikana mine, owned by the London-based Lonmin company, is a profoundly chilling and destabilising case in point.

The green model

Greening the economy, according to international research, can enable economic and employment growth on the same, if not greater, scale than the current environmentally unsustainable development trajectory. The benefits of green growth include the use of local resources and local job creation, since it is more labour intensive than traditional fossil fuel-based economic activities. The green economy is portrayed as a catalyst for movement towards a more equitable and inclusive economy.

However, rosy scenarios and dazzling outcomes shouldn't blind us to limitations in the research models. First, there is no interrogation of the quantum and demand thresholds for green manufacture. Second, it is unlikely that green manufacturing will succeed without substantial subsidies and concessionary finance. Third, there is a dearth of sufficiently skilled labour to power and sustain the new economy. Fourth, the weak regulatory environment, along with poor communication within government, stifles investment in green technology and delays implementation. Fifth, the stimulus needed to create and sustain green industries remains to be considered. Although some finance can be leveraged through environmental taxation, externality pricing and the reduction of subsidies for fossil fuel-based activities, the magnitude of money and incentives requires much deeper pockets.

Technocratic and tepid approach

More worrying than faulty assumptions and projections is the government's greening approach. It has been variously deemed as "technicist", offering "tepid responses" while relying on "market mechanisms to reduce emissions" as well as "dangerous technologies", including nuclear energy and carbon capture and storage. Solutions rely on "eco-efficiency" and "voluntary standards and markets" as the main mechanisms for achieving environmental change through investment, research and development (R&D) incentives, and conservative (i.e. deepening path dependency) technological and industrial restructuring paradigms.

The government's narrow focus on materials and flows, its technocratic fixation, and the continuation of unsustainable production steer clear of any engagement with the way economic power is organised and resources distributed, or with the institutional and social embeddedness of industrial systems and structural transformation. Social dimensions, such as equity, human rights and justice – which are critical factors in poverty reduction, pro-poor growth and environmental sustainability – are relegated to the margins of the mainstream green-growth economic agenda. Also sidelined are questions about the impact of green economy strategies on different social groups and patterns of inequality.

Another perspective

Evidence increasingly demonstrates – especially since the financial crisis – that "re-establishing the command of the social and collective" is a precondition for the regeneration of sustained and sustainable growth. There is solid scholarship to show that the redistribution of socio-institutional power, via democratic governance and participatory processes, is central to the architecture and implementation of a green society (obviously broader than a green economy). Accordingly, achieving a low-carbon, resource-conserving and socially inclusive economy would:

entail challenging the belief that economic growth is the answer to the financial and environmental crises, and expressing caution regarding the headlong commodification of the environment… The *crucial question* here is how to build social forces and political structures which are able to produce a green economy which prioritises social welfare, tackles poverty and exclusion, and defends non-monetary ways of valuing the natural environment… Here it is useful to link the idea of the green economy to another recently revived concept: that of the developmental state. (Death 2014, 17, emphasis added).

Rules: Coding and decoding

Before attending to this crucial question, a few quick remarks are necessary. Centrally implicated in the image of an inclusive, sustainable and pluralist economy is the type of politics required to actualise this. There are four dangers that a progressive and productive politics must confront.

Firstly, the dominant discourse of green growth could "produce new power relations of inequality and injustice" (Death 2014, 1). Secondly, the various ecologisms embedded in the four "green discourses" can endorse a multiplicity of politics and interventions. In the name of the "common good", pragmatic and expedient politics can run the full gamut from democratic to authoritarian populist. Thirdly, and relatedly, the vagueness of the definition of "green" is potentially useful, offering hope to diverse groups, but also leaves it vulnerable to capture by powerful interests. Lastly, to the extent that green economic analyses and policies are informed by neoclassical economics, an urgent and radical corrective is required to challenge the intimate association of "greening the economy" with the status quo and its emulation.

POSITIVE, PROGRESSIVE AND PRODUCTIVE POLITICS

Having now surveyed the evolution of the FMEC and interrogated the interlocking conglomerate of structure, perspectives and rules, we here sketch the contours a "politics" in pursuit of economic democracy.

Economic planners should desist immediately from "fulfilling the role of compliant 'handmaidens of repressions' – governmental or economic". If these planners are to be midwives of the transition and guardians of empowering sustainability, an ecological heterodox approach to economics is the essential therapy to undo the cognitive patterning of repression engraved in neoliberal aspirations for "green economics". The discourses of the green economy, green society and the developmental state should be linked and cross-referenced with recent research about alternative growth paths that reside in rapid and substantial expansion of the state's role in the economy. Such expansion includes strategic ownership of and intervention in key sectors; implementing a growth acceleration strategy focused on investments in transport, renewable energy and infrastructure; transforming the labour market via formalising employment, combating atypical work, raising wage levels and promoting collective bargaining; and "rethinking modes of fiscal intervention and redistribution of society's collective wealth that is generated through industry" (Isaacs 2014).

Isaacs (2014) identifies several interventions and interrogations to yoke "mineral resources to the benefit of the workers and the country as a whole":

- Robust industrial policy that "harnesses South African mining for broad-based, job-creating industrial growth" would entail "downstream mineral beneficiation", expanding the capital goods sector that feeds mining, research and development investment, and utilising mining infrastructure and property to benefit nearby communities. All these, to "some extent, exist already, but there is much greater potential";
- "Incentives to produce must exist", why should the gains of commodity booms (like that in platinum between 2000 and 2008) be hogged by shareholders and mining executives? "Altering the low wage structure of the economy by radically increasing wages" has broader spin-offs, especially considering the dependency ratio, with each platinum miner supporting 10 people, on average;
- Higher wages will "not bring the decent housing, transport and healthcare that the striking workers justifiably consider their due". That would require a "significant redistribution of society's collective wealth, government provision of a radically improved 'social wage' and necessary welfare, and a managed transformation of the industrial structure can ensure". Countries as diverse as Australia, Canada, the USA, Brazil, China and India have combined various interventions to effect structural transformation, e.g. "direct participation in mining by state-owned mineral corporations, publicly owned equity in existing private mining houses, joint ventures with mining capital, nationalisation and an array of taxes, rents or royalties". This array has been utilised to finance "skills and mining development" and "regional development", to provide "fiscal stabilisation during downturns", and to meet basic needs;
- The royalties, taxes and rents captured from mining could be pooled into a "sovereign wealth fund" to "finance a significant redistribution of wealth";

- "One avenue would be through enhancing the social wage – for instance, the improved provision of transport, housing, healthcare and basic utilities – which would improve lives and relieve wage pressure";
- "Another avenue is the instituting of a basic income grant, an unconditional cash grant distributed to everyone, the level of which could be tied to the size of the pot available in the sovereign wealth fund, thereby giving everyone an incentive to grow the economy. A basic income grant could absorb many of the current grants, although it would need to be considerably higher."

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Finally, alternative pathways to structural transformation need to be sustained. In this context, recreating the "circumstances for a stable and sustainable economic growth strategy" hinges on establishing a social pact that has a "serious agenda of tackling poverty and inequality" (Habib 2012).

To continue coercing workers and the unemployed to accept the upward redistribution of incomes, assets and public revenue to employers, managers and shareholders daily undermines any remaining social cohesion and, by extension, the prospects of a social pact. Inequalities, poverty and discontent "provide fertile ground for the emergence of left-wing and radical socialist ideology that is occupying the public debate" (Motsohi 2014).

While business elites (capitalists, old and new, straddling the racial divide) vilify those who even speak of tampering with their ill-gotten gains, dismiss strategies that might marginally alter their entitlements, and chastise the poor for rebelling, what is singularly and strikingly lacking is a "credible effort to come up with a strategy and plan, entirely conceived and driven by the private sector… that will directly benefit the poor" (ibid).

A powerful positive, progressive and productive politics presents itself: this time with both map and compass. History will judge us harshly if we squander this opportunity (again!) to effect "radical transformation" or if we allow the powerful to rob us of the opportunity (again!).

NOTE

1. *Green revolution* refers to the greening of the economy to resolve systemic contradictions and end the systematic exploitation of nature; *resilience*, "essentially reactionary and cautious", aims to protect the status quo (e.g. climate adaptation schemes, flood defences, insurance schemes, risk indexing, disaster relief plans, and attempts to build self-sufficient local economies); *transformation* is encapsulated by the Brundtland Report's vision of sustainable development as a re-alignment of prevailing growth models and development paths; and *growth* views green markets as an "economic opportunity". Set against the backdrop of crisis, recession, resource shortages and commodity price increases, "organic" or "green" products and post-fossil fuels offer new opportunities for financial speculation (e.g. carbon markets).

In sum, while "the green economy offers future growth, profits, jobs and markets", the "green growth" discourse "recasts and refashions the relationship between environmentalism and economics" (see Death 2014, 6–9).

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