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“Building the African state in the age of globalisation: The role of social compacts and lessons for South Africa”

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INTRODUCTION

The topic assigned to me is not an easy one and I can only attribute my acceptance to talk about the topic to hubris and, of course, to the temptation of escaping the wintry climes of Europe by travelling to Africa. The full title of the lecture proposed to me by the Mapungubwe Institute for Strategic Reflection (MISTRA) is: “Building the African state in the age of globalisation – the role of social compacts and lessons for South Africa”. Complicating the matter was that MISTRA also requested that I address the issue of globalisation. Quite obviously the organisation wanted to leave me with no room for escape. The question that immediately came to mind was: why is MISTRA interested in social compacts at this particular juncture?

BUILDING THE AFRICAN DEVELOPMENT STATE

For all the predictions of its demise, the state in Africa is alive in all its diverse manifestations. The complete breakdown of the state in places such as Somalia are the exception that proves the rule, although judging from some writings one would think that they are the norm. The real issue then is not so much “building” the African state but making it a more accountable and more efficient instrument for addressing the issues that Africans have reason to consider fundamental. A growing understanding is that we are talking about “democratic developmental states”:- developmental (in the sense that they facilitate and promote economic growth and structural transformation), democratic (in the sense that they derive their legitimacy through popular participation and electoral process) and socially inclusive (in the sense that they pursue social policies that ensure equitable entitlements of all their citizens to ensure that their capacities and functioning are adequate for a decent inclusion in societal affairs).
The anti-statist analysis

The thinking about developmental states went against the regnant neo-liberal dogma which argued that the invisible hand, left unhindered, would handle all the problems of the political economy – efficient allocation of resources, equitable distribution based on each factor of production’s contribution to production, etc. This message was brought to Africa by the “Berg Report”, written by Elliot Berg, and published by the World Bank in 1981 with the cheerful official title “An Agenda for Accelerated Development for Africa”. The report is especially interesting because it was prepared by the African governors at the World Bank who wanted advice on how they could lift their growth rate of 5.7 percent annually to the levels reached by Asia. The major message of the “Berg Report” was that “getting prices right” would get things moving. Africans were sceptical about this mantra. But the ideational contestation that Structural Adjustment Programmes unleashed in Africa was unprecedented; but so was the imbalance between the resources disposable to local and foreign actors, with the former’s universities under severe stress while the latter could descend on any country with an armada of consultants and conditionalities to which most countries eventually caved in.

What followed was not “accelerated development” but maladjustment and two “Lost Decades”. As one African Minister is reported to have observed, “We asked for bread but they gave us a stone”. Coincidentally the African Ministers of Planning had requested the Economic Commission for Africa to prepare the Lagos Plan of Action which also came out in the same year.

Can Africa Have Developmental States?

If developmental states were desirable, could Africa have such states? Eventually African scepticism about the mantra of “getting prices right” proved right. The donors then shifted, first arguing that African countries should “get governance right”. This was followed by the need to get
“institutions right”; which in turn was followed by “getting culture right”. Other suggestions were that we should have got institutions right in the first place by being colonised in a manner conducive to building productive rather than extractive institutions. And finally we should have got our geography right. This would have saved us from having the largest number of landlocked countries and from the many tropical parasites that undermined our human capital. However the persistent mantra remained: “Getting Governance Right”. Significantly, the new agenda was prompted by the failure to attract private investment and so the central element of the “Good Governance” agenda was to secure property rights and to make government policies credible.

The understanding was that Anglo-Saxon institutions were the best at achieving such an order and this led to what Peter Evans terms “Institutional Monocropping” which pushed for a “one-size-fits-all” model. In the case of Africa, the institutional policy reform encouraged “institutional monotasking”, where institutions that elsewhere performed many tasks were suddenly reduced to one task. Thus central banks that had elsewhere assumed many responsibilities other than monetary stability by taking on such tasks as facilitating housing loans, credit rationing in favour of strategic sectors, supporting employment creating policies etc., were assigned one mission, that of stabilisation. More significantly the new institutional landscape was to be filled by restraining rather than transformative institutions. They were definitely not “developmental” let alone democratic since, according to the new dogma, state interventionism was out and the credibility of these institutions required that they be ring-fenced and kept away from oversight by representative governments. Achievement of budget surpluses was to be achieved by having “democratic deficits”. As I have argued elsewhere this produced “choiceless democracies” that were severely restricted in their options.
In 1993, the World Bank published a report funded by the Japanese government in which it finally relented and conceded that the developmental state in East Asia had played a major role. However the lessons they took from the East Asian experience for Africa was that Africa could not have a developmental state. Five arguments were advanced with this. The first was ideological. Africa simply could not imagine development. The second had to do with “rent seeking” and the argument then being that the state had been captured by rent-seekers who insisted that the states pursue their particularistic interest at the cost of the national interest. The model itself was taken from Public Choice and had been used to explain policies in the USA. It assumed organised interests that would overcome collective action problems and strategically deploy their political capabilities to steer the state in their direction. The theory was immediately adopted by donors, not so much because of its veracity or appropriateness to the African condition, but because of its resonance with the neoliberal dogma which saw crass material interest of organised groups lurking behind any public action. As it turned out, the theory had one problem. The authors could not find groups that actually matched the criteria. Nevertheless, we should bear in mind that such a theory had no positive role for organised interests.

This rent-seeking theory, based on supposedly universal rational choice, was replaced by a more culturalist theory, which also denied the possibility of a developmental state in Africa. The argument now was that Africa was the “epicentre” of neopatrimonialism which produced states that fatally combined tradition with modernity, with the former built on highly personalised reciprocity as the basis for exchange while the latter was based on Weberian legal-rational order. This lethal concoction produced states that were anything but developmental: they were “neopatrimonial states”, “Vampire states”, “Lame Leviathan”, “Prebendal states” “Predatory states”, “Sultanic states”, etc. The fourth argument was that African states simply didn’t have the human resources
and technical capacity to have “developmental states”. Part of this can be blamed on the idealisation and ahistorical accounts of the formation of developmental states. In trying to counter the neoliberal onslaught on the developmental state, a number of writers have inadvertently ended up mystifying the developmental state, suggesting a state that was “autonomous”, omniscient and omnipotent and always able to take the economy where it wishes. And finally there was the argument that globalisation had closed the window for state interventionism as it left little room for states to effectively intervene in their respective economies.

The analysis led to an ontological despair producing what was called “Afropessimism” – an illness that somehow Africans managed not to be afflicted by, as they continue to overthrow dictators; try to get on with their lives; and continue “thinking about developmental states”. This stance was supported by the crisis through which African countries went in the 1980s and 1990s.

In our circumstances we do need a commonly-shared institution to address the main long-term problems that require coordinated collective action. All others have used the state for this purpose. I see no reason why Africa should be the exception, especially if one accepts that African states must radically and rapidly transform their economies, not only to address the known ills of poverty, ignorance and disease, but also to deal with the new challenges of climate change and the ever present threat of external plunder.

As so often happens, while academics insisted on the impossibility of certain social changes because of lack of “prerequisites”, society found ways around them. And so the 1980s witnessed a “Third Wave “of democratisation that swept much of the developing world and that did not spare Africa. This was also the era of neoliberalism. The simultaneous combination of the two led to considerable speculation. For some this spelt the end of history. Others doubted whether the new
democracies would implement the structural adjustment programmes which had been hitherto associated with authoritarian rule. These human activities dramatically changed the data set. With a better data set and a dramatic increase in the number of democracies, the postulated trade-off lost its law-like standing.

**WHY SOCIAL COMPACTS - CAPACITY VERSUS PURPOSE**

I will take it that by “Social Compacts” MISTRA included such synonymous notions as “social partnership”, “social contracts”, “class compromise”, “social consensus”, “social concertation”, etc. Social compacts refer to the institutionalisation of consultation and cooperation on economic policy involving representation from the state, capital, labour and other organisations of civil society. Social compacts have been used to address distributive and growth objectives of society at the micro-level; to improve labour management at the firm level and, as in the current usage of “social pacts” in Europe, to manage the distributional issues of macroeconomics policies.

Many of the social compacts are not formally entered into but are tacit understandings. In this paper I will only consider social arrangements entered into by key economic actors that govern the political economy with the aim of producing certain socio- and macroeconomic outcomes like the reduction of income inequality, economic development, competitiveness, employment, macroeconomic sustainability, social security and the like. This leaves out a whole range of political compacts that have been reached in a number of countries to address political impasse – GNUs (Governments of National Unity) are an example of pacts I will not be discussing.

The literature on social compacts suggests many reasons and preconditions for the existence of social pacts. One can distinguish between drivers of social pacts: reactive responses or proactive initiatives. In the case of the former the predominant explanation of social pacts emphasises the
role of a crisis or a high economic problem load. A general idea running through the literature is that an agreement on reforms is more likely when a country is stuck in a deep crisis that threatens international competitiveness or when exogenous shocks require adjustment across multiple policy areas. Such situations of national emergency, so the argument goes, act as powerful incentives for concertation because a high problem load may help to create a shared understanding that a cooperative game is the most appropriate course of action.iii Social pacts are thus generally depicted as functional responses to various economic problems. In some cases “compacts” have been evidence of the weak regulatory capacity of the state. Lacking carrots and sticks with which to steer individuals or private companies in the direction of desirable objects, governments have been compelled to use moral suasion to persuade actors to assume “social responsibility”. In still other explanations social pacts are the outcomes of exhaustion among the contending classes who are then compelled to accept some kind of settlement among themselves including, in the extreme, Bonapartist arrangements. Social pacts may then provide the opportunity for embarking on less conflicted paths.

The **proactive initiatives** emerge when societies aim at a future objective that requires high levels of cooperation and trust. One simple notion of social compact builds on the adage that “unity is strength” and is evoked when nations seek to embark on ambitious projects that require coordination and co-operation in both the political and economic spheres. Nation-building and economic development are good examples of such efforts. This is particularly the case in the developmental context. Developmental pacts are by definition around inter-temporal distribution issues or about “Governing for the long term”, to borrow a phrase from Jacobsiv, where inevitably problems of political uncertainty, time inconsistency and credible commitment arise so that bargains
are necessarily difficult to craft. Social compacts play an important role in such situations to assure citizens that their current sacrifices will be duly and fairly rewarded in the future.

**NEO-CORPORATISM AND THE WELFARE STATE**

One of the effects of the Second War, and the Depression before it, was to raise fundamental questions about the prevailing capitalist order. Not surprisingly the “post-war settlement” in most industrial countries was reformist, based on managed capitalism and an extensive system of welfare provision. Labour had emerged strong in the post-war period and there was a felt need to integrate it into this reformist agenda. All this led to neo-corporatism which associated with the “Keynesian welfare state” built around an interventionist economic model and a permissive global order which John Ruggie named as “embedded liberalism”. Such an order allowed individual states considerable policy space and latitude and, more significantly, permitted the emergence of welfare states in the developed countries and developmental states in the Global South. There were of course variations in the welfare regimes that emerged, including the liberal one in the United States, the conservative Christian Democratic ones in Germany and the Social Democratic ones in the Nordic countries. Neo-corporatism was most developed in Nordic countries where social democratic parties, informed by a Keynesian understanding of the economy, and social ideologies of solidarity and equality dominated. Nordic countries tended to focus on macroeconomic coordination, while in the more liberal-conservative countries the focus was usually sectoral and did not always have the tripartite forms associated with Nordic models. In all these countries governments used welfare benefits and employment creation to compensate unions for delivering wage moderation. Nordic countries are the most cited cases in which the state played a major role in promoting cooperation between state, labour and business, and in underwriting the ‘social contract’ between business and labour through transfers and an array of welfare measures to
promote stability and growth during much of the 20th century. Most of the compacts included a “wage bargain” based on the principle of solidarity. Labour was concerned, first, with economic expansion and employment; second, with the share of wages in the national product; and third, on the distribution of that share among workers in different sectors of the economy with different labour productivities. The labour movements pushed for wage compression by decoupling wages from industrial sector performance. These pacts were aimed at sustaining high employment and ensuring redistribution of income that was compatible with high rates of economic growth.

The neocorporatist arrangements were highly successful in terms of inflation and unemployment although they had higher levels of taxation and high expenditure. This model of wage restraint, high employment and high public exchange was faced with severe tests in the 1980s and 1990s and, by many accounts, survived the onslaught.

THE NATION BUILDING “SOCIAL PACTS”

Independence was achieved by complex alliances of disparate social groups knit together by the emergent elites to resolve the “colonial question”. Not surprisingly the nationalist agenda covered the entire ideological spectrum from Left to Right and was characterised by contradictions so common to “national liberation front” politics. The literature on the post-colonialist practices of nationalist movements describes social arrangements they entered into with society at large as “social pacts” or “nation-building pacts”. The disparate groups behind “social pacts” that had pursued the struggle for independence insisted on the new states fulfilling their promises and addressing the many social problems they had inherited. Although, as we will see below, development was a major preoccupation among them, it is better to see such pacts around the political project of national cohesion which, at times, overwhelmed the developmental agenda.
Nationalist ideologies in Africa called for government policies that would not only address the many social grievances that had galvanised populations against colonial injustice but that would also help in the “nation-building” tasks\textsuperscript{vii}. Not surprisingly, the policy emphasis was not only on economic growth but also on the social policies that were often related to health and education but also economic development.

Many of these social pacts were also focussed on addressing the racial inequalities, while quite often tolerating the emerging vertical inequality developing along class lines. Class-based social organisations were denounced for (a) being based on foreign ideologies and (b) for being sociologically inaccurate because African societies were “classless” in the past and that, therefore ‘African socialism’ would be based on social and moral premises other than class\textsuperscript{viii}. Albert Hirschman provided an explanation for this initial tolerance of growing inequality. He has observed that people caught in a traffic jam in a tunnel will rejoice at any sign of movement in the parallel queue because it raises the hope that their turn will soon come. He called this the “tunnel effect”. A similar effect characterises attitude towards inequality in the immediate post-liberation phase in African countries. The poor may rejoice at seeing one of them dramatically improve their lot or become filthy rich. The announcement that one of them has reached the billion dollar mark of net worth may provoke national or racial pride even if that indicates that inequality is skyrocketing. That is what lies behind various schemes of “Africanisation”, “indigenisation”, “Black Empowerment”, etc. These post-colonial compacts were eventually eroded by crisis of the development model, the growing social differentiation along both vertical and horizontal lines, the rise of ethnonationalism and the degeneration of authoritarian rule into predatory forms of personal rule.
DEVELOPMENTAL COMPACTS

In many countries “developmental pacts” overlapped with “nation-building pacts”. After all, the common phrase used by the nationalist movements was eradication of “the unholy trinity of poverty, ignorance and disease”. Inevitably, developmental pacts have long-term effects, although the tendency has been to focus on their purely intra-temporarily distributive features. The first one is related to the unavoidable issue of inter-temporal distribution because economic growth and development entails deferring consumption of resources today in order to create more resources in the future. Rapid economic development requires rapid investments, which requires high levels of savings. And so, once a nation’s leadership takes on the task of “catching up”; it has to deal with two central problems:

(a) Mobilisation of the financial, material and human resources for accumulation

The investment funds may be domestic or foreign but the fundamental problem remains: how does society ensure that current sacrifices in terms of foregone consumption will result in increased output in the future and that the distribution of that increased output will be fairly shared. Two things are involved here: the efficacy of the proposed economic model of consumption restraint followed by high growth. Different social actors may hold entirely different visions of how the economy operates and the effectiveness of a proposed set of measures to accelerate future growth. Secondly, even if there is a general consensus on the performance of the proposed strategy, how does one resolve the potential discrepancy between ex ante and ex post bargaining associated with the division of the expected output? In such pacts one is immediately confronted with the inevitable problems of political uncertainty, time inconsistency that arises from the fact that that one accord that may have looked good to all parties at one point in time may not do so at another.
(b) Features of the process of development

In the “late industrialisation process” the problems of “social compacts” arises due to a number of features of the process of development. Or how does one guarantee labour that the high profits arising from their self-restraint in wage demands will result in higher levels of investments and not be frittered away in frivolous and conspicuous consumptions or be repatriated abroad? The problem here is of credible commitments against opportunism when employers fail to reinvest the higher profits ensured by wage restraints. Conversely, how does one ensure capitalists that the high profits arising from their long-term investments will not be taxed away in the future? In other words, what mechanism exists for ensuring “patient labour” and “patient capital”? How does one match labour’s long-term vision with the capitalists’ equally long-term visions?xi

The second problem of late industrialisation arises from the shift in political and organisational power that it entails. In technologically dependent “late industrialisers” the minimum size of new firms will tend to be relatively large and will give new firms oligopolistic positions and political resourcesxii. This industrial structure produces a dualistic labour market structure in which concentration in the oligopolistic sector will also facilitate labour’s self-organisation and produce the much bemoaned “premature unionisation”. This immediately opens up room for conflicts over distribution. Although the size of wage earners in the formal sector may be small, labour is strategically placed to put the spanners in the works. And coercion is not always efficient, let alone desirable. One major role of social compacts in developing countries is settling the "wage bargain". African economies are capitalist economies and so getting capitalists and labour on board is an important aspect of social compacts.
The third aspect of “late industrialisation” is the rapidity of structural change and the people’s readiness to accept policy changes that can put that welfare at risk. Economic development involves major structural changes with “winners and losers”. In most cases, individuals may not know what category they will fall into, and given risk aversion, may oppose change, which is likely to benefit many. Here again, the state and social compacts, based on notions of solidarity, have played an important role in shaping instruments, including social insurance, which can ensure that the final outcome is not so disadvantageous for any particular group as to induce paralysis from political opposition. The solution has been various measures of “labour compression” through “solidarity wages” underpinned by social policies that provided a “social wage”. “Solidarity wages” in countries such as Sweden are a good example of the outcomes of “wage bargaining” that took into account the disequalising effects of rapid change.

Authority, Pacts and Legitimacy

The political question that arises in such a developmental context is how to handle these problems, dilemmas and contradictions in the development process. More specifically, what was the ideal form of the state and the relation between state and society? The process of catching-up must somehow involve compression in time of everything that the forerunners must have done. In such a context the widespread understanding was that democracy was a luxury the poor could not afford. For many years, an implicit and at times quite explicit view of the relationship between democracy and development was that it involved a trade-off or a sequencing that excluded the simultaneous occurrence of democracy and economic growth. The formulation of the trade-off was often informed by an ideological belief in the need to make some tough choices or a reading of history that suggested such trade-offs as inevitable. The main intellectual arguments for authoritarian rule were the “nation-building”, “modernisation” and “developmentalist” ideologies
that tended to subject every other value to their own peculiar and unrelenting exigencies. According to their precepts, development needed national unity; it needed foreign investment which in turn needed discipline and docile labour. It needed a singleness of purpose so as to avoid the ambivalence and compromises inherent to democracy which were deemed luxuries that would have to await the attainment of “development”. Development was “No Easy Task” and it required a hard-headedness that condoned violation of human rights as long as a brighter future was being edified. Democracy, in its turn needed development. This followed Samuel Huntington’s precept that order precedes “democracy”. If democracy was to be placed on the agenda at all, it had to demonstrate that it was promotive of development, or at least, was compatible with it.

A considerable amount of intellectual energy was expended to demonstrate that the management of political order in the face of rising expectations would demand “hard states” or charismatic leaders that would mobilise all the national resources for development. Some, inspired by Charles Tilly’s view that “War drives state formation and transformation”, even propose that for Africa to create the necessary state structures for “catch-up” a little war here and there would help to strengthen states. This to me is a dereliction of intellectual duty. Amartya Sen has given this path of development the acronym BLAST to connote its Churchillian appeals to “Blood Sweat and Tears”.

The view was further buttressed by two characteristics of the successful developmental regimes: that they were highly interventionist and “strong” states with autonomy from societal forces. It was thus argued that such strength and autonomy were essential characteristics for successful developmental states because it isolated the state from the encumbrance of society. The state had somehow to be “autonomous” in the sense that it does not act on behalf or at the behest of particularistic interests (Skocpol, Evans Levy Geddes). The East Asian experience with the
quintessential “developmental states” has been read to suggest that such states must be authoritarian. This developmentalist discourse was so pervasive and so much part of conventional wisdom in both African developing and developed countries that it permitted the most extensive violation of human rights to take place as long as “development” was somehow taking place. The spectacular achievements of some of the authoritarian “developmental states” with respect to addressing some of the issues encompassed by the “rights to development” and the failures of such democracies as India reinforced this view.

My own position is that the authoritarian cast given to “state autonomy” derives from a specific and tendentious reading of recent developmental history which unwarrantedly raises historically contingent practices of East Asian “tigers” into absolute necessities of development strategies. This reading tends to generate an invidious comparison between “weak” African states and “strong” Asian states without problematising the “strength” of the latter, especially if one is interested in democratisation of the development process. It should be pointed out that, with the growing interest in democracy, the interpretation of “state autonomy” as necessarily authoritarian has been qualified by citing examples of “developmental states” that are democratic. This list includes Nordic countries as late industrialisers. Others have suggested Japan and France in the post-War era as examples of democratic developmental states. Interestingly enough the two most oft-cited examples are both African: Botswana and Mauritius.

In addition, economists and political scientists have raised serious doubts about the postulated negative correlation between the enjoyment of human rights and levels and rates of development. The case as it now stands is that enjoyment of human rights does not hamper economic growth. Some of the writing goes further to suggest that not only the compatibility and even synergetic interactions of the two objectives but that each is a necessary condition of the
other. It was now suggested that levels of economic development, while not determining the prospects of democratisation, determined the sustainability and quality of democracy. In some of the regression analysis, democracy enters the growth equation with negative surplus in Asia and Latin America but a positive one for Africa. This is presumably explicable by the wretched performance of African authoritarian regimes.\textsuperscript{xvii}

Another feature of an effective state is “relative autonomy” from particularistic interest, an idea that goes as far back as Karl Marx and which has been revived in development studies by many writers on the “developmental state”. Such standing above particularistic interest, real or imagined, enhances the legitimacy of the state and its potential as an arbiter. In a capitalist economy, there are certain decisions by investors and other producers that depend on the credibility of the commitments of the state. Initially, in the developmental state literature such autonomy was unproblematised in terms of accountability and effectiveness. With respect to accountability, the “autonomy” was considered one of the constituent parts of the “authoritarian advantage”. The autonomous state would overcome the myopic interests of society and focus on the long-term strategic needs of development without the encumbrance of interest groups or politics.

There have been several counterpoints to this view of “autonomy” and authority. This state-centred view of the developmental state tended not to pay much attention to the politics that produced such autonomy and how various forms of authority are politically constituted. First we need to draw on the useful distinction made by Michael Mann (1993) between the despotic and the infrastructural powers of the state, with despotic powers referring to the ability to use force and infrastructural powers defined as the ‘capacity of the state to actually penetrate civil society and to implement logistically political decisions throughout the realm’. The extraction of resources (human or material) from society is a key element of such infrastructural power. There is no obvious reason
why authoritarian regimes should have greater infrastructural authority. The second was the observation by Peter Evans of the unqualified “autonomy” vision of a developmental state that seemed implausible in what was fundamentally a capitalist society. It became clear that if the state was to achieve its projects it would have to win over the capitalist and other key players in the economy. Peter Evans coined the expression to suggest the oxymoron-like expression, “embedded autonomy”.

The third point was against the depoliticisation of the developmental state as much of the literature on developmental states had been confined to describing the role of the developmental state and its institutional features but never seems to explain what “developmental coalitions” were behind its emergence and function. Leftwich has proposed that we identify “agential factors that have crafted the very different kinds of developmental strategies and states in different parts of the world” xvi

These counterpoints opened the door to thinking about the kind of “social compacts” needed to enhance the infrastructural authority of the state, to embed the state and politically manage development – an inherently conflicted project. The political elites in developing countries are faced with the problem of turning their “project” into a Gramcian hegemonic idea that impinges on all other areas of national concern and that gains the adhesion (preferably voluntary) of all the major actors. These counterpoints bring to the forefront the nature and ideologies of the elites and the kind of social coalitions coalescing behind the “catching up” project. Such coalitions are of course not all-inclusive. Legitimacy was recognised by such writers as Lipset as central to the effectiveness of the state. The sources of such legitimacy have been a bone of contention and mystification, claims ranging from Divine Providence to Vox Populi. However the lesson of history is that legitimacy is never given forever. It must be cultivated and nourished.
To handle these problems, corporatist arrangements have emerged in many late industrialisers. The role of the state is to arbitrate conflicts of intertemporal distribution that ensures that the *ex post* distribution of resources is such that it corresponds to those incentives that were *ex ante* necessary to induce the necessary investments.

**East Asian developmental pacts.**

The East Asian Development state has been stereotyped as the quintessential “bureaucratic-authoritarian” state in which state elites enjoy great autonomy. In many authoritarian regimes, coercions have been used to force both capital and labour to acquiesce to the state project. However, as we indicated above, this wanton deployment of coercive capacity can be self-defeating. Consequently, many authoritarian regimes have sought ways of bringing on board social actors strategic to its project. Among authoritarian East Asian countries, such as South Korea, exclusive development patterns were avoided. The model built on extensive land reform that sets the basis for the subsequent egalitarian growth path and emphasises full employment as the “implicit” social policy. There have been many arguments for the choice of this path. This has included the lack of natural resources by these countries which compelled them to rely on labour extensive products, the adoption of an export-oriented strategy based on comparative advantage or the “nation-building” project that had to respond to the challenges of radical social transformation that their communist neighbours had embarked on.

This “social embedding” of a top-down project has been described as “embedded autonomy”. It may include the state and business only or pacts without labour. The more stable arrangement has been tripartite arrangements involving the state, capital and labour. The problem of labour management in countries such as Japan was facilitated by the “teleological insight” of
responding to the Marxist observation of the contradictory nature of capitalism by devising labour market policies that consist of the “three sacred treasures” for labour market management: enterprise unionism, the seniority wages and lifetime employment. Chalmers Johnson observes that these “treasures provide strong incentives for an enterprise to operate at close to full capacity (labour bring a fixed cost, it should not be allowed to sit idle) and to innovate in order not to be left uncompetitive while still carrying the costs of its workers. More important, instead of the contractual relationships between management and labour that exists in the West; Japan has a Gemeinschaft-like situation in which both management and labour feel they have powerful stakes in the success of a business

In Latin America “social pacts” played an important role in some of the import substitution industrialisation strategies. These pacts were often driven by populist ideologies. Examples of such populism and coalitions are the regimes of Getulio Vargas (1930-1945) in Brazil and Juan Domingo Perón (1946-1955) in Argentina. The developmental coalitions involved a heterogeneous coalition whose core was the working class, peasants and emergent industrial bourgeoisie opposed to landed interests. Subsequently the presence of popular classes at the core of the accumulation movement was considered a hindrance and the populist coalitions were dismantled by the bureaucratic-authoritarianism with its selective corporatism that included the state, labour in selected industry, and foreign capital.

**African experiences**

Earlier literature on social pacts suggests that in many new African states such pacts were emerging that included the state, international corporations, and labour. Giovanni Arrighi had postulated such a “triangle” for African economies in which the state, foreign capital and a “labour

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aristocracy” produced a “wage-technique” spiral that produced a high-wage-capital intensive and low employment growth path. The literature on Latin America went further and suggested that such arrangements could produce what Peter Evans calls “an anti-Schumpeterian triangle” of state, business and labour “where protected workers, protected entrepreneurs and the state elites and employees engaged in rentier games, driven by a political logic rather than by the driving force of competition and innovating”. This can happen in democracies as well, but the importance of numbers in democracies is likely to erode such arrangements. In either case a successful developmental project demands that labour buys into the project. Not surprisingly, in many late industrialisers, starting from Bismarck, what has emerged are segmented labour regimes restricted to labour in the modern industrial sector. Segmentation of social policies is often significantly reduced under democratic rule as politicians seek support from voters outside formal labour and push for more universalistic policies.

There has been considerable controversy over whether such “labour aristocracies” really existed or were simply a theoretical possibility or an empirical curiosity confined to the White Settler economies. In South Africa, the question has been raised about the existence of such a “labour aristocracy” among Black workers. In political terms, African nationalists were quite aware of the labour movements and often acted as if they sought to forestall the emergence of such an “aristocracy”. This is partly because many of the union leaders had played leading roles in the struggle for independence. Names like Mboya, in Kenya, Tettegah in Ghana, immediately come to mind. The new governments were also aware of the enormous power some of these unions wielded as demonstrated in many instances of industrial action under colonial rule. The natural instinct of

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2 These trends towards universalistic policies are most noticeable and theorised with respect to Latin America by education reforms in Malawi and Kenya and the health reforms in Ghana which have taken universalistic direction are evidence of the force of democratic imperatives on social policy.

3 Strangely the delineation is often made only along such racial lines.
the new leaders was to bring them into the government’s fold. In some cases, union leaders were
given cabinet posts, usually the Minister of Labour. In one party states, unions were incorporated
into the party like many other hitherto independent associations. The understanding then was that
the new government would introduce minimum wage legislation, create more jobs through
industrialisation and provide social services. The unions, in turn, were to moderate their demands
for reasons of national interest. All this was often given an ideological twist that proclaimed that
African societies were classless in the past, as if this guaranteed that they would remain so in the
future. The rapid expansion of industry and the extensive provision of services by the state in many
countries served to maintain these implicit compacts, although growing inequality began to raise
issues.

One problem faced by African states was the organising of tripartite compacts of state,
labour and capital when both labour and capital were highly fragmented, or were dominated by one
ethnic or racial group. Things were even more complicated when the bourgeoisie was international
or, as in case of Southern Africa, largely white settler farming and mining capital. The case of Zambia
is illustrative of this problem. While the Kaunda government sought to attract capital away from
Southern Rhodesia to Zambia, while urging unions to be patient, there was a massive outflow of
capital from Zambia. This prompted unions to argue that, unless the state controlled the mines,
they would insist on higher pay. This partly contributed to the nationalisation of the mines. This
capital flight had little to do with actual governance but had much more to do with the racist
perceptions of the mining industry of black governments in general. This is a particularly serious
problem in creating “development coalitions” in the case of Southern Africa.

However, the single most damaging trend to any meaningful social compacts in the post-
colonial era was the drift to authoritarian rule. Social compacts under many authoritarian nationalist
movements were a form of nationalisation of labour for delivery as cheap labour to capital whose part of the bargain was rarely insisted upon. Many such pacts fell victim to the wave of democratisation and liberalisation that swept through the 1980s and 1990s. As in Latin America, many leaders of labour movements associated state interventionism with authoritarian rule, and bought into the “neoliberal populism” which focussed on state predation and inefficiency. Chiluba in Zambia and Morgan Tsvangirai in Zimbabwe are good examples of this trend in Africa.

We noted above the initially broad nature of nationalist coalitions. However soon the coalition is dominated by urban interests, which has been associated with “urban bias” in policy making. Given low levels of industrialisation, with democratisation where numbers matter, rural constituencies have acquired greater importance with the consequences that new political coalitions and social pacts will have to take into account, as they did in the European late industrialisers, rural interests. Democratisation in Africa is apparently producing populist politics predicated on “combined class appeals in urban areas with overtures to ascriptive identities in rural areas, mobilising both groups with either a real or imagined story of exclusion from political and economic power structures”.

DEMOCRACY AND DEVELOPMENTAL COMPACTS

In most authoritarian developmental states the popular classes were often side-lined and brought into the development process largely through coercion. In democratic states, the alliances will have to bring in labour and peasants in an organic way to carry out both the needed agrarian transformation and industrialisation.
For countries embarking on development, the Keynesian focus on demand management may not be particularly interesting. However it is important to stress here that the Nordic neo-corporatist states were not simply “welfarist” in the sense that they were exclusively concerned with protection and reattribution, but that they paid special attention to production.

“In all Nordic countries, industrialization has taken place relatively late and partly coincided with the rise of the welfare state. Moreover, in these small countries, industrialization has been export-led. This has resulted in an experience of periphery and external dependence that in turn has shaped the Nordic welfare systems. On the one hand, the perceived increase in insecurity resulting from higher exposure to foreign trade has intensified the claims by workers for a more effective social safety net as a precondition for submitting the economy to increasing foreign competition. On the other hand, the benefits attached to access to wider markets have made employers more ready to agree to employees’ demands for better social security. Furthermore, both the employers and the representatives of the state have observed the requirement that the build-up of the welfare state is as conducive to growth and structural change as possible.” [Pekkarinen, 2005 #14294: 166-7]

Among countries with neo-corporatist arrangements, Finland was obviously the most overtly “developmentalist” of them all. Finland was the “late industrialiser” in the Nordic part of the world. Indeed some Finnish writers describe it as such and compare it to the East Asian Tigers. “The very notion of a strict separation between ‘state’ agents and ‘private’ agents, so central to modern economics, becomes anachronistic when applied to Finland’s policy experiences. In this respect, the country’s growth strategy bears surprising similarities with those of the Asian tiger economies. In Korea and Taiwan, as well as in Finland, a pragmatic cooperation between organised private agents (bankers and business leaders), on the one hand, and government officials and civil servants, on the other, has played a key role in enhancing economic growth.”
Finland also sought to encourage private investment, although the focus was largely on supporting domestic capital, with Nokia as the iconic example of such domestic capital. Wage settlements have played a pivotal role in the successful performance of Finland, and labour’s involvement in this has been crucial.

Small economies such as Finland tend to be highly oligopolistic. Their size also means that large firms will dominate the economy. They will in turn spawn highly organised labour, leading to a combination that produces what Vartainen refers to as “increasing-returns-interventions-corporatist”xxv arrangements in which the state plays a central role in ensuring wide wage settlement and a comprehensive industrial policy. The fundamental pillar of the welfare state was the existence of a “class compromise” between highly organised labour and farmers associations largely based on independent, small-scale farmers. As the political Left and the labour organisations to which they were associated could not garner enough votes for reform on their own, workers joined farmers and entered into “cow deals” between social democratic parties and farmers parties. There were tensions between the farmers’ preference for universal flat-rate benefits and workers’ preference for earnings-related social insurance on the other. The eventual settlement was universalistic social policy and laid the grounds for the Nordic welfare state. Such alliances may have been weakened over time but they still remain effective in Finlandxxvi.

Of special interest is the role of the state in Finnish corporatist arrangements. While in Sweden the state tended to adopt an arms-length involvement in the bargaining between labour and capital, the corporatism in Finland has been described as “state-centred corporatism” in which the role of the state is central in facilitating the passing of centralised wage settlements: “The government keeps a keen eye on the negotiations; it provides information and arbitration, and it is
essential that the government makes settlements in taxation, social expenditure, and labour market legislation conditional on the outcome of wage negotiationsxxvii.

Small economies such as Finland are “open economies” in the sense that trade matters. And so competitiveness was always a major preoccupation of economic policy. Finnish Keynesian interventionism took the form of repeated devaluations and income policies which were usually accompanied by ‘incomes policy’ settlements, “which restricted wage growth for at least 2-3 years, so that the profitability-enhancing effect of the devaluation would not evaporate immediately. With such a control mechanism for nominal wage costs in place, accommodating exchange rate changes became one instrument for upholding competitiveness”.

Significantly, and in sharp contrast to the current wave of “competitiveness pacts”, the implicit social contract in Finland went beyond simply upholding industrial competitiveness:

“Social welfare reforms were gradually introduced at the same time, which can also be interpreted as an attempt to buy wage moderation with the promise of welfare services. There was a happy congruence of interest for such reforms at least in the 1950s and 1960s. Many of these obviously boosted labour supply, in particular that of women (primarily due, of course, to childcare and a proper pension system). The reforms also made the market economy more palatable at the microeconomic level, thus enhancing the political legitimacy of the economic policy model in the eyes of the politically powerful working class. Finally, they also alleviated the suspicions of the working class with regard to rapid structural transformation. If the government is trusted to provide social insurance to those who lose in structural transformation, it is probably easier to overcome the political opposition towards the growth-enhancing policies that create both losers and winners. [Jäntti, 2009 #14363: ]

It is often suggested that the success of such countries as Finland was ethnic homogeneity, but it should be recalled that as soon as the country had achieved independence in 1918, it witnessed an extremely bloody civil war in which 34 000 people from a population of about three million were killed. The welfare state was part of the healing mechanism.
The case of Mauritius

The importance of social pacts is illustrated by the sharp differences in social policies between two African “democratic developmental states”: Botswana and Mauritius. xxviii

One often cited case of “developmental compacts” reached within a third world democratic country is that of Mauritius. I am aware that there are those who believe Mauritius is too special a case to be of much use to the rest of Africa. But I want to stress two features of the pact formation that then point to challenges faced by many African countries. The first was the democratic context itself which gave genuine space to voluntary organisation and allowed unions to play an important role in the social compacts. The second was the existence of a clear-cut hegemonic national bourgeoisie (the sugar barons) with which democratic movements would eventually negotiate. This national bourgeoisie “built an unusual peak association for the business class, and initiated regular consultations and meetings with political and government leaders. They solidified their commitment to their social welfare state, with its unusual guarantee of a universal old age pension. And they reshaped transnational business networks first built in the colonial period by bringing in a new partner: the government”. xxix

Many African countries did not have such a hegemonic domestic bourgeoisie and whatever may have begun to emerge after independence was scuttled by the forces of globalisation⁴. Thirdly, Mauritius had a highly organised labour movement that was close to the Labour Party, a Leftist party. Brautigam identifies three pillars for the creation of social compacts in Mauritius. These included public-private signalling as indicated by the rapprochement of the new government with the capitalists who dominated the economy; the existence of a peak association that organised the

⁴ Writing about Latin America Ronaldo Munck [, 1994 #14320] argues fragmentation of both labour and the national bourgeoisie is one of the effects of globalisation and structural adjustment.
business class across the ethnic groups and sectors; and the presence of multiple formal and informal arenas for consultation. Deborrah Brautigam captures the essence of such compacts thus:

“The formation of a broad-based coalition grouping business, government, and political leaders took place at a moment of high urgency. The business class, dominated by ethnic minorities, believed that the election of a Hindu majority-dominated, socialist government posed a grave threat to their interests. The new government needed to establish a compromise with the business class that would stop capital haemorrhaging from the country. At the same time, they had to create desperately needed employment and begin to meet societal demands for a better standard of living. The key challenge for socialist political leaders and their allies in the business sector in Mauritius at this juncture was to create enough confidence among domestic and foreign investors for an increase in employment-creating investment. We argue that they created this credibility in three major ways. First, both public and private sector leaders used symbolic, public gestures as signals of commitment to cooperation, thereby shifting societal perceptions and easing a potentially dangerous ethnic polarization. Second, the business class organized itself into a unified, cross-ethnic constituency, with a peak association that could speak with a single voice on critical issues. Third, government leaders and the private sector fostered dense clusters of consultation: regular, public, joint, formal and informal arenas for business and government interaction.”

GLOBALISATION AND SOCIAL COMPACTS

In the 1980s and 1990s globalisation was the bogeyman evoked in minatory terms to silence any demands for restraining the market. Globalisation was seen as undermining social compacts in various ways by (a) dramatically shifting the balance of power in favour of one member of the compacts, usually capital; (b) fragmenting the major components of compacts, and (c) undermining the capacity of the state to enhance the credibility of, or to enforce, agreements. The greater mobility of capital and the opening up of national markets has significantly freed it from many of the functional necessities imposed upon them by national markets and has allowed greater space for diversification of their portfolio and for sourcing resources, especially labour. Less mobile labour has
thus found itself facing competition from labour with which it has no organisational links and working in labour markets that were not bound by the norms and standards that labour in the advanced welfare states had acquired over years of struggles and negotiation. Another effect of globalisation was the fragmentation of various social organisations that constituted social coalitions that had prevailed in the post-World era. Business associations found themselves having to seek to address the heightened differences in interests and perspectives between the more transnationalised fractions of capital and the national form of capital. Similarly for labour, the premium paid for skills and devaluation of unskilled labour in favour of increased competition fragmented the labour movement, with skilled labour often opting out of traditional labour unions. For developing countries pursuing import substitution strategies, policy reduction of the wage gap was facilitated by the “closed” nature of the labour market. The shift to more open markets often has led to wage decompression and increased unemployment. State policy was also torn between the fiscal and monetary demands of globalisation, often calling for retrenchment of welfare and tighter monetary control, and the fiscal exigencies of welfare especially in the context of demographic shifts. In addition, deregulation has left the state with fewer carrots and sticks for managing the social compacts.

**Social Pacts: The new wave**

In the earlier literature on globalisation the prognosis for social pacts was not promising. It was predicted that globalisation would not only weaken social pacts, but would obviate the need for them. In fully liberalised markets there simply would be no “rents” to justify “rent-seeking” by any organised societal interests. Parallel to the atomistic firm, maximising profit was the atomistic worker selling his/her labour. In such a world it is possible to imagine a pluralistic world in which various interest groups, political parties, and individuals compete for attention in the policy circles.
The competitive nature of the process ensures that no group permanently dominates the policy arena or is given exclusive attention by the state. The state is seen as a neutral arbiter or “Night Watchman” in the resolution of conflicting interests. There was therefore no need for such institutions as governments, social pacts, etc. This highly idealised system of representation does not exist anywhere, the reality being that different interests meter this “market” with different organisational, financial and ideational resources. They varied in size and strategic importance to the economy as a whole and thus have different leverage over the political system.

In the real world of imperfect information markets left to themselves do not work well. Collective institutions are required to move the economy towards the desirable “equilibrium”. The point here is that markets presuppose a whole range of socially constructed phenomena – such as preferences and technology. Not surprisingly, associational life goes along with the expansion of the market.\textsuperscript{xxxi}

The growing acknowledgement of the social embeddedness of markets is evidenced by preoccupation even by economists with such cultural attributes as social capital, trust and social institutions that are now widely acknowledge as facilitators of the functioning of real markets. And so the era of globalisation has been associated with a flourishing of “social pacts”. Somewhat unexpectedly, these new concerted agreements emerged in countries lacking a long tradition of social partnership and monopolistic and hierarchical interest organisations that the neocorporatist literature of the 1970s and 1980s had identified as a key precondition for a successful political exchange\textsuperscript{xxxii}. 

\vspace{-1cm}
Europeans Social Pacts

The 1990s witnessed a proliferation of “social pacts” in Europe. If the neo-corporatism of the welfare state was understood in the Polanyian sense of “socially embedding” the market and managing co-prosperity, the new understanding of “social pacts” was in terms of crisis management. Social compacts emerged to extricate economies from deep crises often blamed on the profligacy of the “welfare state” or the “labour market rigidities” that putatively undermined international competitiveness: “Such situations of national emergency, so the argument goes, act as powerful incentives for concertation because a high problem load may help to create a shared understanding that a cooperative game is the most appropriate course of action. Social pacts are thus generally depicted as functional responses to various economic problems.” Social pacts became quite prevalent in the era of globalisation when governments sought the support of unions to introduce policies that were expected to impose short-term hardships on workers. Later social pacts were establish to manage retrenchment and reduction in public expenditure to protect employment and labour rights.

The new social compacts have been defined as “new forms of competitive macro-concertation in which governments and representatives of organized capital and labour meet regularly in attempts to coordinate policies across formally independent and institutionally segmented but de facto interdependent policy areas such as ... wage, labour market, and social policy.” Consequently the new policies are more productivist than redistributionist. In many of neo-corporatist compacts, the issue was not only full employment and the share of labour in the national cake, but also union wage policies which explicitly insisted on the compression of wage differentials. This has changed as unions have moved towards more distributionally-neutral wage

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5 This section draws heavily from [Molina, 2002 #13220].
policies. The pacts have become “competitive corporatism’, ‘lean’ or ‘supply-side’ types.” The reforms sought in such policies often involved reforms in the labour laws to reduce costs of hiring and firing, remove minimum wages laws etc. xxxv Usually the promise was that the consequence of such policies would be more employment generated by increased investment that would be attracted by lowered labour costs. Faced with stringent budgetary constraints, governments could no longer play the same compensatory role. As a result, new concerted deals relied more on the devolution of policy-making functions to the unions than on redistributive policies and concessions. xxxvi

The social pacts of the 1980s “aim at a hierarchical centralisation of negotiations and coordination procedures: they represent processes of macro-concertation.” Ironically, this focus on the macro economy happened when “institutionalised monetarism” severely limits macroeconomic policy space at the national level.

“Whereas effective Keynesian macroconcertation aimed at an explicit coordination between monetary, fiscal and wage policy, ‘monetarist coordination’ ... driven by powerful independent central banks which follow a policy of (internal and external) currency stability, resembles an asymmetric and informal signalling game between the three policy areas ..... As a consequence of the supra-nationalisation of monetary policy authority at the European level and the legally defined competences and duties of the European Central Bank within the Eurozone, a supranational price stability regime now defines a ‘quasi-constitutional’ constraint for national macroeconomic policy. In EU countries, macroconcertation takes place in the context of a formal loss of sovereignty in monetary and a de facto loss of autonomy in other key policy domains. [Siegel, 2005 #14316: 110]

Significantly, in these new pacts the state plays an important role that includes steering or refereeing the bargaining process, pressuring labour unions and at times substituting for, or simply circumventing social pacts, a phenomenon foreseen by Pekkarinen who predicted that these would
“replace, reinforce, or supplement private, centralized wage bargaining with various kinds of official intervention”\textsuperscript{xxxvii}. These new pacts were thus associated with “workfare” rather than “welfare”.

Finally we should bear in mind that many social pacts were entered into in order to enable countries to qualify for the European Monetary Union by meeting the focal and monetary benchmark required for the accession to the Monetary Union. “Thus, to enhance their reputation as viable monetary union players, most member-states not only adopted orthodox ‘credible’ macroeconomic policies, but also sought to build orderly wage determination systems.”\textsuperscript{xxxviii} One consequence of all this is growing inequality even in the most “corporatist” welfare states of the Nordic Countries.

Common among the new pacts was that they were market-conforming and quite asymmetrical in their demands, in the sense that more was demanded of labour than capital, which now had a credible “exit” option. There are disagreements as to whether these social pacts were evidence of a deliberate restructuring of the welfare states in light of the need of global pressures with the intention of preserving the trust and solidarity essential to the preservation of many of the social gains, or whether they were simply the capitulation of labour to the fissiparous pressures of global competition.

\textit{Celtic Tiger Social Partnerships}

The Republic of Ireland, perhaps the most successful model of “competitive pacts”, earned itself the sobriquet “Celtic Tiger” because of a high rate of growth over the period 1994–2000 that was comparable to that achieved by the “East Asian Tigers”. Although it took place around the same time as “social pacts” in much of Europe, it was premised on more developmentalist ideologies. Ireland had lagged behind the economic growth of the rest of Europe and part of the blame was laid
on the failure to reach a consensus over national strategies. Another feature of the Irish “Social Partnership” was that it did not only involve trade union and employer organisations bargaining hard to reach wage agreements, but also included a wide number of civic associations. The main argument for the pacts was: “On this view, social partnership not only ensures that wage levels are consistent with broader macroeconomic policy, but also creates shared understandings between government, business and civil society on what needs to be done to govern Ireland effectively and fairly. It has created a new form of economic and social governance, which is sometimes described as ‘post-corporatist’.”

The main development strategy of the model involved attraction of foreign direct investment with a low tax regime and a cheap, but skilled labour force. The strategy worked if judged by the vast amount of foreign capital that poured into the country. The social partnership ensured investors high returns by restraining wage growth so that the gap between wages and productivity increased during much of the boom period leading to falling unit labour costs and effectively the devaluation of labour. The model produced not only high growth but also “phenomenal” employment creation. One criticism levelled against this model is that it was a form of the neocorporatist strategies that made no demand on the state to compensate wage restraint with a high “social wage” funded by higher taxation. It is this that has led the model to be seen as a form of ‘competitive corporatism’. Unlike in the Finnish model, where the building of the welfare state was not put on hold, in Ireland the “competitiveness” aspirations trumped the welfare aspiration.

On this account, Irish social partnership is regarded as creating corporatist-type structures to regulate pay levels without building a significant social dimension that places institutional constraints on employers, which was such a feature of these arrangements in 1950s and 1960s in
This became patently clear during the financial crisis of 2007 when Irish workers suffered from major reversals of fortune in a context of little social protection.

**Adjustment Pacts in the developing countries**

A version of “competitive pacts” emerged in the developing countries in the context of structural adjustment, although the “Washington Consensus” and the neoliberalism that accompanied it intrinsically abhorred “social pacts”. The neoliberal political economy saw such associations as “rent-seeking” cabals that only “distorted” the market. Since for most members of the neoliberal school “Good Policies” were known, any opposition to them were attributed at best to ignorance, but more often than not, to the greed of those who benefitted from them. The non sequitur behind these arguments was that beneficiaries of any set of policies must have organised for their pursuit. And so everything had to be done to undermine such groups by either “insulating” the bureaucracy from them, or by simply liquidating them. This solution was sought from an “autonomous” or “insulated” Leviathan which, while pursuing its own objectives, would maximise the general interest by simply shielding the market from interest groups. Such Leviathans were presumably necessary to crush the opposition to the reversal of some of the social gains made during the more interventionist policy era and to provide assurance to domestic and foreign firms that the liberalisation of the economy was a lasting commitment of the government that would not be eroded by domestic pressures in other directions. For the more hard-headed neoliberals like Deepak Lal, one of the staunchest supporters of this view, the answer was “a courageous, ruthless and perhaps undemocratic government...to ride roughshod over ...newly created special interest groups” in developing countries. Such an approach led to violent assaults against organised labour. In the 1980s a common solution was to bring in the army to smash such recalcitrant groups. Pinochet and the Chicago boys remain the economic duo in this respect. In Africa this was
demonstrated by the ability of the authoritarian regimes of Jerry Rawlings and Yoweri Museveni to push through tough measures on a sceptical, if not outright hostile, citizenry. Such coercion was justified by the claim that democratic rights were exercised only by an urban coalition and that somehow the trampling down of the particularistic demands of the urban population would benefit the rural masses. Thus, the World Bank Regional Vice-President for Africa could state, “...adjustment is the ally of the great silent majority in Africa: the rural poor.” And so, unlike their Latin American counterparts where early adjustment saw the rebirth of “social concertations”, many African governments disallowed the creation of autonomous labour unions and blocked the formation of concertation mechanisms. They chose instead repressive paths in dealing with labour during the early adjustment problems.

However by the end of the 1990s, the Bretton Woods institutions began to recognise the limited efficacy of their “conditionalities” and their reliance on brute force and so began seeking new ways of transferring the “ownership” of policies to developing countries and getting greater acceptance of the adjustment regime. The World Bank now fretted about social pacts which would essentially empower those constituencies deemed favourable to adjustment programmes. Such groups would then “participate” in the policy dialogues.

“Among participation’s anticipated benefits are to base macroeconomic policies on fuller and more accurate information; increase country resoluteness with fiscal and monetary decisions, so the government does not abandon them; enhance the credibility of these policies in the eyes of investors and creditors, so they will provide sustained funding for business and government activities; build public concurrence and backing for policy implementation; minimize adverse impacts on the poor by getting their input into macroeconomic decisions; increase scrutiny of misappropriation of resources by both public and private agents, which is a major source of macroeconomic instability in many countries; and produce broad based and sustainable growth in gross national product. [Brinkerhoff, 2003 #14279: 686]
Participation and The PRSP charade

In 1999 the joint Boards of the IMF and the World Bank officially approved the PRSP (Poverty Reduction Strategy Papers) which were documents prepared at the national level on a consultative basis. Much of the consultation was a charade and soon the African participants learnt it was better to adopt a standard package or simply request donors to provide the consultants who would draft the document. A finance minister is quoted as saying the following about his country’s poverty reduction strategy:

“We do not want to second guess the Fund. We prefer to pre-empt them by giving them what they want before they start lecturing us about this and that. By doing so, we send a clear message that we know what we are doing—i.e. we believe in structural adjustment.” [Cheru, 2001 #3200]

Limiting the Scope of Social Pacts

While recognising that social pacts might be useful in the policy-making process, their remit was to be severely limited.

First, the new coalitions were to be kept away from the core macroeconomic policies which were ring-fenced and an exclusive domain of policy elites in the Ministries of Finance. The coalitions would not only ensure domestic “ownership” of policies but would enhance government accountability and the credibility of government commitments to the reform program. This was presumably the basis of the Comprehensive Framework Proposed by Wolfensohn, then the president of the World Bank. The PRSP process was supposed to generate that kind of social consensus around economic reform. There was, however, a catch. The major premise of this consultative process was that the “Washington Consensus” was fundamentally the right thing to do.

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This view is stated by Paul Collier
However, because of its counterintuitive nature, spreading knowledge about its benefits through various forms of “participation” would be of great benefit to the ignorant or myopic victim of these otherwise correct policies. These new consultative mechanisms would “empower the domestic constituencies for change through knowledge and participation”\textsuperscript{xlvii}.

Selection and exclusion and empowerment of social actors

For neoliberalism corporatism was inconsistent with emphasis on “marketing supporting institutions”. For the World Bank, while interest groups (or civil society) could facilitate “good governance”, “special” interest groups, the basis of corporatism, were seen as hindering public accountability\textsuperscript{xlvii}. Not surprisingly, there was a systematic exclusion of membership organisations such as trade unions and a reliance on donor-funded NGOs as constitutive of “civil society”. In the political economy approach that informed the “Washington Consensus” organised interests were seen as the heart of the problem so that a major aspect of policy-making was to protect the policy-making process from these rent-seeking interest groups. Not surprisingly, their inclusion was generally hesitant and perfunctory.

Focus on Micro-level “social pact”

Second, while the World Bank was opposed to national level social pacts on neoliberal grounds, it was quite favourable to micro-level ones on grounds of “social capital”. In light of some of the problems that Structural Adjustment Programmes were facing, the World Bank jumped on to the social capital wagon to provide the institutional scaffolding for the market in rural areas: “getting the social relations right”. Complicating matters is the fact such social capital was confined to civil society or communities “and did not engender the kind of complementaries and embeddedness that have constituted the bridge between organised social groups and the state as stressed by Evans.
Social capital was to help the poor have access to markets by “helping the poor to transcend their closed networks in order to access additional resources”.

One sided Burden Sharing

Stringent budget constraints have often meant that the state has had no resources to compensate labour through social wages for its restraint. The deals were often confined to the unions carrying the burden of adjustment while letting capital off scot-free or, at most providing “corporate welfare”. One should add here the restrictive nature of the international environment and the one-sidedness of the interventions by global financial institutions in the economies. As Stiglitz observes “...while the IMF was willing to put up billions to preserve the sanctity of the debt contract, it was reluctant to put up the millions needed to pre-serve the social contract, for example, the food and fuel subsidies for the poor, and the social and economic consequences of the abrogation of the social contract were far more severe than the consequences of bankruptcy could possibly have been.”

“Choiceless Democracies”

One distinct feature of the 1980s and 1990s is that a number of countries were going through multiple transitions of economic polarisation and democratisation. Some of the pacts were for the management of either of these transitions or both. “Transition pacts” were often aimed at the transfer of power from authoritarian regimes to democratic ones. Many such pacts were aimed at imposing self-restraint for new democracies and they often involved complex arrangements about reconciliation, the most famous of these being the South African Truth and Reconciliation Commission. New democracies were often compelled to make concessions in order to avoid chaos. In many countries, social pacts were reached to forestall worse interventions by universally dreaded or abhorred third parties. Thus in Latin America, after a wave of brutal military regimes, various
factions of civil society felt they must reach social arrangements or concertations that would pre-empt military action by confining democracy to its formal aspects and avoiding substantive issues of distribution and wellbeing. These arrangements “preclude(d) socio-economic reform and undermine(d) liberties, by neglecting to enact redistributive policies, but also, by removing from the arena of legitimate discussion issues on which ordinary citizens may wish to express preferences, they can hinder further democratisation. It is the political system itself, and not just the policy agenda, which may be compromised by elite pact-making. The ‘liberal’ content as well as the long-term, real substantive ‘democratic’ content of the resultant political system, can be affected.”

Many of these new democracies tended to adopt neoliberal policies partly as a consequence of the compromises that had produced them, partly as a consequence of the ideological predispositions of the leaders of the main parties, and partly as a reflection of the limitations of the tools available to them for addressing the inherited economic problems.

The case of South Africa

I have thus far avoided saying much about South African pacts. South Africa exhibits certain features that have elsewhere favoured effective social compacts: the presence of a strong party with social democratic ambitions, a strong and well organised labour movement allied to the ruling party, and a domestic capitalist class. And yet for each of these favourable conditions one must add qualifications that the peculiar institution of apartheid and its legacy have produced. The ruling party has still to wrestle with the question of de-racialisation that compromises the class ambitions it may have; the labour movement is racially fragmented and exists in a context of mass unemployment in a highly dualistic labour market; the domestic bourgeoisie consist largely of a
racial minority with split loyalties. These qualifications enormously compound the difficulties of reaching social compacts, but do not make them impossible.

Both the time of liberation and the nature of the struggle have placed on the agenda a whole range of issues that other social compacts may have dealt with separately: the need for nation-building pacts that bridge the racial divide and heal the wounds of past injustice; the “development pacts” that ensure accumulation and legitimise such accumulation in the eyes of many; “competitive pacts” that ensure performance in the global market while governing the market; “social pacts” that produce both “patient labour and “patient capital” and ensure that the burden and returns of economic development are fairly shared and permit redistribution that does not undermine economic development.

Complicating matters is the widely held sense that capitalists are on “strike” and are apparently not investing in productive and employment-generating activities. The reasons suggested by the financial press draw on neoliberal views of the determinants of investment: absence of good institutions, poor infrastructure, bad governance, etc. These arguments are not particularly persuasive, considering the fact that South African capital is moving to countries that cannot be said to better than South Africa on that score. I suspect that there are deeper reasons that include the usual uncertainty that de-racialisation of any racial order is likely to create and a large dose of confusion among capitalists used to doing things under one order and no longer sure about their long-term interests in the new South Africa. This could be a case of “false consciousness” often attributed to labour. Compounding matters is the lack of clarity and timidity by the state about its own long-term projects.
Here we run into a problem of class consciousness and Marx’s observation that the mere existence of a class does not automatically produce a consciousness of class interest. A class in itself is not necessarily a class for itself. For researchers I would suggest that we need more research on the capitalist class in Africa, its objective interest, its ideology, and its organisational capacity. The same is, of course, true of labour. The rising bourgeoisie has always had to reach out to other classes and establish alliances. It has sought to make its projects hegemonic in a Gramscian sense. The question for Africa was posed some years back by Colin Leys: “How far has the domestic bourgeoisie acted in such a way as to induce other classes to accept, as in their interests, the requirements for continued capital accumulation?”

Social concertation and dialogue can provide for the disentangling of the maze of suspicion, confusion and uncertainty that seem to characterise South Africa’s political economy.

**When do Social Pacts survive? Some Lessons**

*Ideology and Shared “Developmental Vision”*

A number of writers working in the constructivist tradition stress the importance of the ideational framing of the problem and point out that there are serious uncertainties about the nature of the crisis, its causes and the effectiveness of the instruments proposed to address them. In such a case ideas, beliefs and predispositions provide the template for the interpretation of both crisis and solutions. Successful policies are the ones that resonate with this template. One implication of such a view is that persuasion plays an important role in policy making. Social compacts have played an important role in spreading the “mental models” to society at large.

For development, ideology and intentionality matter. The partners in the social compacts must have the ideological inclination towards development, often driven by notions of “catch-up”,
nationalism, etc. The compact must also have a “model” of the economy which explains the pact’s own presence and activities. A developmental compact based on neoliberalism would be contradictory if the state assumed perfectly functioning markets. The theory of “developmental state” draws on theories of “market failure”, on the need for the state to coordinate economic activity in light of such failures, and on the need for a social actor with long term perspective to counter the myopia and short-termism of the market.

In the developing context it is ideologies that provide the rationale for the sacrifices implicit in most pacts. People must believe that what is being called for and the instruments being deployed will deliver a desirable order and not simply a “pie in the sky” – although even that has been effectively used to mobilise the public. A story is told of a villager who observed to a Minister visiting his place of birth that while nothing had changed in the village decades after independence, he had noticed that each year the Minister’s car had become bigger.

Negotiation over substantive issues

Social compacts tend to survive if they are around substantive issues. The smoke-and-mirrors “participation” that took place in the PRSP processes initiated by the World Bank failed to build long-lasting social arrangements for negotiation over serious national matters. Many social actors saw through the charade and lost interest. This, in turn, calls for meaningful policy space.

The political order has shaped social compacts.

Whether social compacts are entered into under democratic or authoritarian rule makes an important difference in both the context and reach of such compacts. There are, however, other aspects of a country’s political order than can shape the form of such compacts. Thus in societies where there are deep racial or ethnic divisions, it is difficult to produce social compacts around
“national interests”. Similarly, where capital is foreign, it is impossible to appeal to “national interest” in forging such pacts. But there are cases such as Malaysia where ways have been found around these barriers.

**Association of labour with major political actors**

The managerial or technocratic view of social pacts tended to insist on “depoliticisation” of issues. This, in the case of Africa, led to a preference of non-membership organisations as preferred partners. But “mobilising restraint” is a highly political act and it is important to recognise the political nature of the bargaining process right from the outset. In any case, experience suggests that the most effective incorporation of labour occurs when unions have strong ties to major political parties; apparently because “the party exerts more leverage over union leaders than can rank-and-file members.” Murillo demonstrates how organisational and partisan competition within the union movement diminished the strength of union-party ties and thus reduced cooperation between the state and labour over market reform initiatives in Latin America. In a similar vein, Robertson shows how union restraint during periods of economic crisis in newly democratic countries stems from strong union-party ties and the absence of competition between unions for rank-and-file members.

**The state**

Socials compacts are not self-sustaining equilibria. They often need an external actor to provide the framework for negotiations and for ensuring respect by all parties for the conditions of the bargain. The predispositions of the state towards various actors can facilitate social pacts. The state can help by providing a credible societal vision and by coordinating expectations of different social constituencies.
Organisational capacity of Partners

It is important that the various organisations taking part in such pacts have the effective support and trust of their members, if only to assure other partners that they can discipline their rank and file. The literature on neo-corporativism suggests that the existence of peak organisations of employers, workers and farmers have been the bedrock of many effective compacts in Europe. Much of what is called “civil society” in Africa are non-membership organisation and have poor links with organisations directly related to the processes of production. They therefore do not have the kind of leverage on any potential member of “developmental pacts”.

Economic performance

To avoid zero sum solutions, it is important that the economic “cake” is expanding. Much of the “patience” of labour in East Asian economies can be accounted for by the fact that wages were increasing all the time. Writing about Ireland Teague suggests that it is this scale of employment growth that “accounts for the willingness of trade unions to remain with the social partnership regime which did not have a strong distributional dimension.” The social compact must be one that is conducive to growth and structural change.

In Finland, as in all Nordic countries, “an effort was made to accommodate the welfare state to the structural characteristics and economic policy prerequisites of each country. While designing welfare reforms, much attention was paid to contributing, through them, positively also to economic growth and structural change.”

In contrast, the failure of social concertation in countries like Italy has been attributed to problems of economic growth and work productivity.
**Fairness and justice**

For social pacts to succeed they must be based on notions of social justice and solidarity. Social pacts should not be one-sided. The state must not only impose discipline on labour but on capitalists as well. The provision of subsidies to business only makes sense if there is reciprocity, i.e. that business delivers on what the credit was for. For this to happen, the state must apply to business not only carrots, but sticks as well. Regimes that simply gave away credit and repressed labour on behalf of business without demanding anything in return from business ultimately ended up managing predatory pacts.

**Inclusivity**

By its very nature, development is a national project and should therefore build on nationally encompassing social arrangements. It is important that compacts for development are as inclusive as possible. As Rhodes (2001) argues, ‘coalition building’ is required for successful social pacts.

It has been standard for aid donors focussed on “poverty” to seek to “empower” social organisation of the poor. The literature on social policy strongly suggests that usually “pro-poor policies are poor policies” and that the issues that ultimately address poverty are universal ones that receive support from the tax-paying middle class.

**Varieties of compacts**

Historically the development problems have been addressed by a wide range of alliances, pacts or coalitions. In Latin American the fundamental alliances were between the state, national bourgeoisie and labour alliances or the state, national bourgeoisie and foreign direct investors. While in Asia it was often the state and national bourgeoisie or the state and foreign direct
investors. In late industrialisers such as Denmark it was the labour-peasant alliances and national capital. The point here is the importance of context: specificity and creativity of the social actors to forge social compacts most relevant to the conditions and their social project.

**Flexibility**

One of the strengths of social compacts such as those of Sweden is openness to “thorough and intellectually explicit revaluation of the inherited paradigm”\(^\text{lvii}\).

**“Path Dependence” and Context Specificity**

Social compacts build on a country’s history and political culture and are dependent on specifics of each country or period. And so, while one can learn from others, it is extremely important to bear in mind the concrete conditions of each situation.

**Conclusion**

Rapid development requires social mobilisation. When this is carried out within a democracy, such mobilisation demands voluntary acquiescence and involvement in the national project. As things stand now the law-like trade-off between democracy and development is on extremely weak ground. And in any case, we have existing democracies in Africa. We cannot tell them they have jumped the gun and that they must go back to authoritarian rule until they cross some mythical threshold of development. We have to think of developmental polices that are compatible to this democratic order. There are many instruments that authoritarian regimes have used that are unacceptable and so we have to find functionally equivalent instruments that meet democratic credentials. Social compacts can be among such instruments. Not surprisingly, developmental democracies have established social arrangements and concertation that have involved not only workers and business, but farmers and peasants as well. The modalities of such

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pacts will depend on each country’s history, the constellation of social forces and the development strategy being pursued.

This paper is about “lessons” that can possibly be learned from other experiences. However, learning from others can be treacherous as it always takes place through highly stylised facts or models that are often shorn of all the complexities of the realities of the societies they represent. This immediately raises the danger of de-contextualising the lessons that can be drawn from the model and confusing the theoretical model with the actual historical experience. It is bad enough if the model is overly simplified. It is worse when the model is a misplaced abstraction of a particular political economic order. The point here is that the ‘lessons’ should be approached critically and with a healthy dose of scepticism.
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In an earlier paper I cautioned against such a definition:

“It has led to myopic concentration of analysis around success to the neglect of the “trial and error” nature of policy-making even in the most successful cases. If a developmental State is not be deified into some kind of omnipotent and omniscient leviathan that always gets what it wants, then the definition must include situations in which exogenous structural dynamic and unforeseen factors can torpedo genuine developmental commitments and efforts by the State. This allows room for poor performance due to exogenous factors, miscalculation or plain bad luck. At times, a government’s political will and technical capacity may simply prove inadequate to fend off exogenous forces. In Africa, we have many examples of States whose performance up until the mid-1970s would have qualified them as “developmental States” in the sense conveyed by current definitions, but which now seem anti-developmental because the hard times brought the economic expansion of their countries to a halt. Recognition of episodes and possibilities of failure leads us to a definition of a developmental State as one whose ideological underpinnings are developmental and one that seriously attempts to deploy its administrative and political resources to the task of economic development.” [Mkandawire, 2001 #1509: 290-1]
[Teitelbaum, 2010 #14253: 676]
[Teague, 2009 #14365]
[Negrelli, 2008 #14311]
[Kurian 2005 #14293]