



INCLUSIVE SOCIETY INSTITUTE

Op-ed

End the Social Compact tug-of-war: Lessons from Denmark by Daryl Swanepoel

The South African economy is being slowed by a muddy tug-of-war. Business is pulling at the one end, seeking expansion of enterprise, coupled with investor-inducing profits. Labour meanwhile, has kicked in its heels on the other end, fighting, they claim, against worker exploitation. Meanwhile, the state is caught between the two, left trying to appease both sides to ensure a stalemate doesn't bring the economy to its knees.

Anecdotal observations of this year's headlines reveal an increasingly hostile relationship between the representatives of business, labour and government. Cosatu, at one point, was quoted as calling its protest action as a 'pushback and a response by the workers to the ongoing class warfare directed at them by both the public and private sector employers'.

This troubled relationship comes as President Cyril Ramaphosa is advocating for the finalisation of a formal social compact between the three parties so as to ensure effective co-operation in uplifting the economy from the quagmire it finds itself in. The fact that the proposed document is yet to be finalized as 2022 nears year-end, underlines the fractured working relationship between the compact partners. Much can be pondered as how South Africa reached the trifecta of slow economic growth, high levels of inequality and record unemployment figures, but that's the country's reality. And whether you're a supporter of the Phala-Phala owner or not, the statesman is correct in calling for co-operation in moving the country forward. It will require a shift from the current tug-of-war to a pulling of the rope at both ends and in the same forward motion, in so doing, operating in similar fashion to a fishing net.

The Danish arguably have one of the best proven track records of a solid social compact through which economic progress had been forged, and continues to be relied upon, to expand social wellbeing and prosperity. The differences between Denmark and South Africa however, cannot be starker.

Apart from the contrasting climate conditions as the two are located on the opposite ends of the earth, Denmark has a homogenous population roughly the size of Johannesburg with a sharp economic focus on high-value-added products and services. The state further restricts its own role to that of a supportive player leaving labour and business to operate within the relevant market forces. Key to the success of this operational model is a near corrupt-free government, an extensive social-welfare net and deep levels of trust and co-operation among participants. These characteristics seem to be missing from the South African social compact.

How to remedy this?

Firstly, the state will have to clear its house of corruption and release its grip on limping state-owned entities. These will limit fiscal wastage. Some government authorities will also have to forego long-held ideologies about state control of economic activities and adopt a more laissez faire approach. If this shift is accompanied by policies that simplify business operations, as embodied in the Danish model, it will support business expansion, and in turn result in higher tax revenues. Combined, these steps will increase the pool of funds through which the state can develop a social safety net.

Social welfare benefits are considered a right in Denmark. It has been critical in transforming their economy. It comprises an extensive range of services to its citizens from cradle to grave, ensuring equal opportunities and assistance regardless of a person's income status. Parental assistance, in particular, needs mentioning, as it has been vital in providing security, especially to women entering the job market. The South African state can further draw inspiration from Denmark's requirement for the unemployed to participate in working programmes through which they can upskill themselves. It could serve as a blueprint for a future basic income grant.

The support system has allowed the Danish to implement less stringent and more flexible labour laws – something which the South African business representatives have been calling for. Not only will this allow businesses more flexibility in responding to shifting market conditions, but it will also encourage them to be less hesitant in increasing their staff levels when business cycles turn positive. In Denmark, business further benefits from the welfare programme in that the programme develops skilled individuals through the country's highly ranked free education system. These all support the argument for a higher taxes, since the additional funds raised are channelled to supportive measures that benefit all.

Labour may prove the hardest party to convince. It has been dead set against the privatisation of state-owned entities, and it has often called on the state to intervene in private business matters. Labour has also been adamant that legislation governing hiring-and-firing should not be eased, as is the proposal in the draft Social Compact. Underpinning this hard stance, is, seemingly, a lack of trust.

In Denmark, business and labour share a mutual understanding that the one cannot succeed without the other. The relations, although robust, are kept smooth through a well-functioning collective bargaining system where large labour unions and employer organisations engage in a repeated wage-setting game. But labour sees this mechanism as an interest-based model as opposed to a positional bargaining one, the latter currently being relied on by many South African trade unions. Key to effective bargaining by Danish labour authorities are the sectoral negotiations, where the more export-orientated manufacturing sectors set the wage norm which other sectors then use as a basis in their own wage talks. Social conflicts are resolved in a flexible and non-confrontational manner.

Of course, the Danish model can't just be copied and pasted into South African society, neither can all these reforms be implemented at once. It will have to follow a staged process guided by the country's fiscal ability to roll-out social benefit programmes commensurate to the rate at which the economy expands.

But despite its vast differences, the Danish social compact holds valuable lessons from which South Africa can draw in order to strengthen its own social compact. It's a model underpinned by co-operation and the belief that all social partners are seeking an outcome of prosperity to the benefit of all their country.

If the South Africa fails to establish such a cooperative approach, the growth economy needed for job-creation will, sadly, remain elusive.

Daryl Swanepoel is the Chief Executive Officer of the Inclusive Society Institute. This article draws on the contents of the Institute's paper entitled 'South Africa can find inspiration in Denmark's social model: Labour and business' participation in the social compact', which was drafted in collaboration with the Danish Economic Council of the Labour Movement.