

Trade Union Shopstewards box

1A 15592

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EDUCATION CENTRE

- K Lang. A Fest
- How to read in. short
- South Africa & the global  
economy

# Foundation Course in Economics For Trade Unionists

March 1998

## Aims of Course

To help participants develop a basic understanding of key economic concepts

To help participants to begin to apply these concepts to analyse current economic policy debates

To develop participants' confidence and encourage them to pursue on going learning in economic analysis

## Objectives

- participants will develop an understanding of what economics is and how it relates to their day to day life
- participants will develop an understanding of how the economy is managed and what the key instruments of economic management are
- participants will develop skills in economic policy analysis
- participants will be introduced to the world economy and the phenomenon of globalism
- participants will review and develop their understanding of the South African economy and its institutions

## Duration

4.5 days

## Target Group

Advanced/Experienced Shopstewards and Union Organisers

8.30 - 4 pm

## Programme

Day and Time	Item
<b>DAY ONE MON</b>	
9:00 - 10:00	Introduction to Course
10:00 - 10:30	TEA
10:30 - 12:00	What is an Economy and the Key Features of Capitalism
12:00 - 1:00	Circular Flow of Economic Activity <i>The Economy of Karl Marx</i>
1:00 - 2:00	LUNCH
2:00 - 3:00	Circular Flow of Economic Activity (continued)
3:00 - 3:30	TEA
3:30 - 4:30	Circular Flow of Economic Activity (continued)
<b>DAY TWO TUES</b>	
9:00 - 9:30	Review of Previous Day
9:30 - 10:30	Impact of Economic Flow on our Daily Lives <i>Worksheet 4.1 (q1 to 3)</i>
10:30 - 11:00	TEA
11:00 - 12:00	Impact of Economic Flow on our Daily Lives (continued)
12:00 - 1:00	Crisis and Breakdown of the Economic Flow
1:00 - 2:00	LUNCH
2:00 - 3:00	Crisis and Breakdown of the Economic Flow (continued)
3:00 - 3:30	TEA <i>Worksheet 5.2 + their input in Economics ch.</i>
3:30-4:30	The Instruments of Economic Management and Policy <i>many input</i> Formulation: Introduction
<b>DAY THREE WED</b>	
9:00 - 9:30	Review of the Previous Day
9:30 - 10:30	The Instruments of Economic Management and Policy Formulation: Fiscal Policy
10:30 - 11:00	TEA

11:00 - 12:00	The Instruments of Economic Management and Policy Formulation: Fiscal Policy (continued)
12:00 - 1:00	The Instruments of Economic Management and Policy Formulation: Monetary Policy
1:00 - 2:00	LUNCH
2:00 - 3:00	The Instruments of Economic Management and Policy Formulation: Exchange Rates
3:00 - 3:30	TEA
3:30 - 4:30	The Instruments of Economic Management and Policy Formulation: Labour Market Policy
<b>DAY FOUR THURS</b>	
9:00 - 9:30	Review of the Previous Day
9:30 - 10:30	The World Economy Today
10:30 - 11:00	TEA
11:00 - 12:00	Snapshot of the South African Economy
12:00 - 1:00	Policy Modelling Exercise
1:00 - 2:00	LUNCH
2:00 - 3:00	Policy Modelling Exercise (continued)
3:00 - 3:30	TEA
3:30 - 4:30	Policy Modelling Exercise (continued)
<b>DAY FIVE</b>	
9:00 - 9:30	Review of Previous Day
9:30 - 10:30	GEAR and the September Commission
10:30 - 11:00	TEA
11:00 - 12:30	GEAR and the September Commission (continued)
12:30 - 1:00	
1:00 -	LUNCH AND CLOSURE

Section 2 : What is an Economy and the Key Features of Capitalism ?

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### Worksheet 2.1

Reflect on the last three days of your daily lives from morning to night and list five activities that you feel are economic activities or relate to the economy in any way.

### Worksheet 2.4

Look at the following social groups or institutions and answer the question.

- \* Member of Parliament
- \* Women
- \* Students
- \* The State
- \* Factory owners
- \* Shebeen queens
- \* Workers
- \* Farmers
- \* Soccer players
- \* Hawkers
- \* Minister of Finance
- \* Bankers

Discussion Questions :

- a) Which of these groups or institutions do you think play a role in the economy?
- b) From this list choose five (5) which you think play a significant role in the economy.
- c) List these five in order of the most influential in the economy to the least influential. Motivate your response.

# **Summary of Input:What is an Economy and What are Key Features of Capitalism**

## **What is an Economy?**

1. In order to survive all human being must eat, protect themselves against the natural elements or weather and also reproduce themselves.
2. The way in which people organise themselves to produce food, shelter and other necessities of life, as well as the tools or instruments they use to produce these necessities, is called an economy.
3. Although there are different ways in which people organise themselves to produce these necessities of life, every economy has three basic elements.
4. The first element is that the necessities of life must be produced in one way or another. This involves the bringing together of human labour, raw materials and tools or instruments of production in a labour process that produces the product that is needed. This element is called Production.
5. The second element of an economy involves the distribution of the products produced in the production process among the different people. Some of these people were involved in the production process, and some were not involved in the production process. This element is called Distribution.
6. The third element of an economy is involves the use of the products produced to satisfy human needs. This element is called consumption.
7. The different ways in which Production, Distribution and Consumption is organised in different societies and in different period determines the different economic systems in history. An economic system is the way the three basic elements of an economy are organized and the way they relate to each other.
8. There have been many economic systems in history. One of the important ones, and the one under which most of the world today live, including South Africa, is Capitalism.

## **What are the key features of Capitalism?**

Under Capitalism Production, Distribution and Consumption is organised in a way that distinguished capitalism from other economic systems.

## 9. Production

- Production under capitalism is highly socialised, which means that it is carried out cooperatively by many people. This takes place in factories, farms, mines and shops. This also means that all people are interdependent and no single individual, community or even nation produces all the goods and services they need; they need to get these goods and services from other people.
- The instruments of production, the tools and machines, and the means of production themselves - the factories, farms, mines and shops - in which production takes place are owned by individuals.
- Production takes place for the sake of realizing a profit, and not primarily for the sake of production for social needs.
- Production takes place under the control and supervision of the owner of the factory, the capitalist.

## 10. Distribution

- The distribution of the products to the consumers takes place through the process of buying and selling. The producers sell their products to the consumers, and the consumers buy them from the producers. This is known as the market mechanism.
- Money is used as a way of facilitating the exchange of products.

## 11. Consumption

- Although the production process under capitalism is highly socialised, the consumption of the products is highly individualised.
- Only those with access to some form of income, mostly in form of money, are able to get access to products and thus participate in consumption.

12. The key element that distinguishes capitalism from other economic systems is the private ownership of the means of production and production for profit. This process takes place through the market mechanism.

## *I. The economics of everyday life*

When many people think of economics, they think of business deals, stock markets, buying and selling, government policies, and high finance. The vast majority of economic activity, however, takes place in much more familiar surrounds - at work, in the shops, at home, within a community, and in the bank. At its core, economics is really about relationships between people and in society. Understanding economics is actually straight-forward. It involves understanding those economic relationships which we deal with on a day-to-day basis.

Almost all economic activities can be classified into three broad categories:

Activity	Where it takes place	An example
CONSUMPTION	Households, shops, restaurants, governments, etc.	Purchasing food at a grocery store
PRODUCTION	Factories, offices, mines, households, businesses, governments, etc.	Manufacturing automobile parts
DISTRIBUTION	Markets, banks, stock exchange, collective bargaining, governments, etc	Buying and selling shares on a stock exchange

All economies have produced goods and services, determined a way of distributing them, and allowed people to consume the goods and services produced. Economies also determine the accumulation of wealth and the distribution of that accumulated wealth.

## *I. Power and players in the economy*

People and institutions play different roles in the economy. The different roles which people and institutions play is often linked to their power in society. A corporate conglomerate or a large bank has far more power than a single mother caring for three children. The economic power of different players determines (and is also determined by) their ability to command and control economic resources.

Some key players in a modern capitalist economy include:

- Businesses
- Production workers
- Professionals
- Management

- Government
- Banks and financial institutions
- Investors
- People of leisure (inherited wealth)
- Hawkers and informal sector workers
- Unpaid workers in the household, who provide care for children, the sick, and the elderly.
- Trade unions
- Community organisations and social groups
- Families

This list is not meant to exhaust all the possibilities, but does suggest many of the key players in an economy. Many relationships exist between these people and institutions. Moreover, the actions of one group can have a profound impact on the lives of other people, even though many of the players in the economy are unknown to each other.

### *I. Surplus, class economies, and growth*

A surplus is what remains from production after wages are paid and enough of the production is kept aside to allow the system to reproduce itself for another cycle of production. A simple example is a maize economy. From the total harvest each season, the workers who produce the maize must be fed. Some of the maize must be kept as seed for the following season. Whatever is left of the production is called the surplus.

Many types of economies produce surpluses. Three surplus-producing economies are feudalism, the slave economy, and capitalism.

**FEUDALISM:** Under feudalism, the two primary classes are the landlords and the serfs. The landlords have possession of the land and the serfs work on the land.

The serfs work on their own plot of land in order to produce food to survive and replacement capital for future production. The serfs also work on the landlord's piece of land. The landlord lives off of the surplus produced by the serfs on his land. Traditionally, the landlord owns the property and the serfs are bound to the land; if the land changes hands, the serfs remain on the property.

**SLAVERY:** Under slavery, the two primary classes are the slave-owners and the slaves. The slave-owners own the land, the equipment, and the slaves themselves. The slaves own nothing, not even their own labour. The slaves work on the land or in a factory, producing goods which they need to survive, the replacement capital and a surplus. The surplus is owned and controlled by the slave-owner. Unlike feudalism, the slaves are owned directly and these property rights over human beings can be transferred from one owner to another directly.

**CAPITALISM:** Under capitalism, the two primary classes are the capitalist

class and the working class. The capitalists own land and equipment (often called the means of production) and the working class owns its own labour power. Because of the separation of the working class from the means of production, workers have no choice but to sell their labour power as a commodity in the labour market. In exchange for the sale of labour, workers receive a wage. The capitalists must produce enough to maintain the level of investment for another cycle of production. The part of total output which remains after the costs of production are paid is profit (another name for the surplus under capitalism).

A class society is one in which one group lives off the surplus produced by another. All three types of economies outlined above are class-societies. In a non-class society, decisions concerning the use of the surplus are made by everyone.

If more and more of the surplus or profit is re-invested in the economy, the productive capacity of the economy will grow. This is called accumulation of capital. Economic growth is driven by the accumulation of productive capital which allows economic production to expand. In the simple maize economy, if twice as much seed is planted in the second season as in the first season, the output or production will be much greater. This expansion of production is economic growth.

## *II. Key features of capitalism*

The dominant economic system in South Africa is capitalism. There are a number of unique features of capitalism:

### Key features of capitalism

- Production is for profit
- Workers sell their labour to an employer in exchange for a wage
- Capitalist own the means of production; workers are separated from the means of production
- Goods and services are produced for sale in a market (commodity production).

Not all production, consumption, and distribution which takes place in South Africa can be called capitalist. For example, unpaid labour performed in the household violates the condition that, under capitalism, workers sell their labour power in exchange for a wage. Likewise, workers in the public service might produce a service such as education which is not produced for sale in a market. In many small businesses, the workers might be self-employed and not separated from the means of production. Therefore, while South Africa is considered a capitalist economy, there are many activities which fall outside of the definition of capitalism.

## *I. Instability and the potential for crisis*

Capitalist economies are characterised by conflicts (within the areas of

consumption, production, and distribution) and periodic crises. The repeated periods of growth and stagnation in a capitalist economy is often called the business cycle. When the rate of growth actually becomes negative (output shrinks instead of expanding) this is called a recession or depression. Capitalism is characterised by many contradictions. While the system has created more wealth than any other type of economic system in history, its development has been characterised by widespread poverty, large-scale wars, uncertainty and instability, inflation, and unemployment.

There are many sources of conflict and crisis in a capitalist economy.

Conflict over production. Many conflicts arise in a capitalist economy over the conditions under which labour is exchanged -- wages, hours of work, benefits, retrenchments, etc. Conflict over production is often linked directly to a conflict over distribution between wages and profits. Higher wages and benefits (all else being equal) can cut into profits. Likewise, retrenching workers but maintaining the same level of production can increase profitability.

Crisis of Consumption. In a capitalist economy, goods and services are produced, not for use, but for exchange. Therefore, a car manufacturing produces cars because they can be sold to realise a profit. But what happens if the car manufacturer cannot sell the cars produced? When there is not enough consumption of goods and services in an economy (e.g. due to low incomes or high levels of inequality), exchange might not take place, and an economic crisis can occur.

Crisis of Accumulation. What happens if economic resources are not re-invested into an economy? Equipment becomes old and obsolete, productivity drops, unemployment grows, and economic growth slows down. When investment in an economy fails to happen, an economic crisis could result.

Inequality and poverty. A capitalist economy is often characterised by an uneven distribution of incomes. Furthermore, there is a tendency for inequality to grow in a capitalist system, creating substantial levels of poverty. Often times, government policies or economic transformations are needed to address the crises of poverty which capitalism can produce.

# **The economy of KwaMielie**

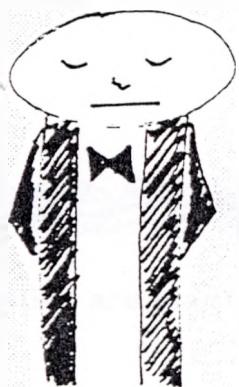
**a look at a simple economy**

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The following exercise will help you deepen your understanding of the way in which economies work. Read through the description of the "village" and discuss the accompanying questions as a group.

Think about the very simple economy of an imaginary village. The name of the village is KwaMielie and its economy only produces one good: mielies. The mielie plant is used to feed people, make drinks, build houses, and to supply the village with everything it needs.



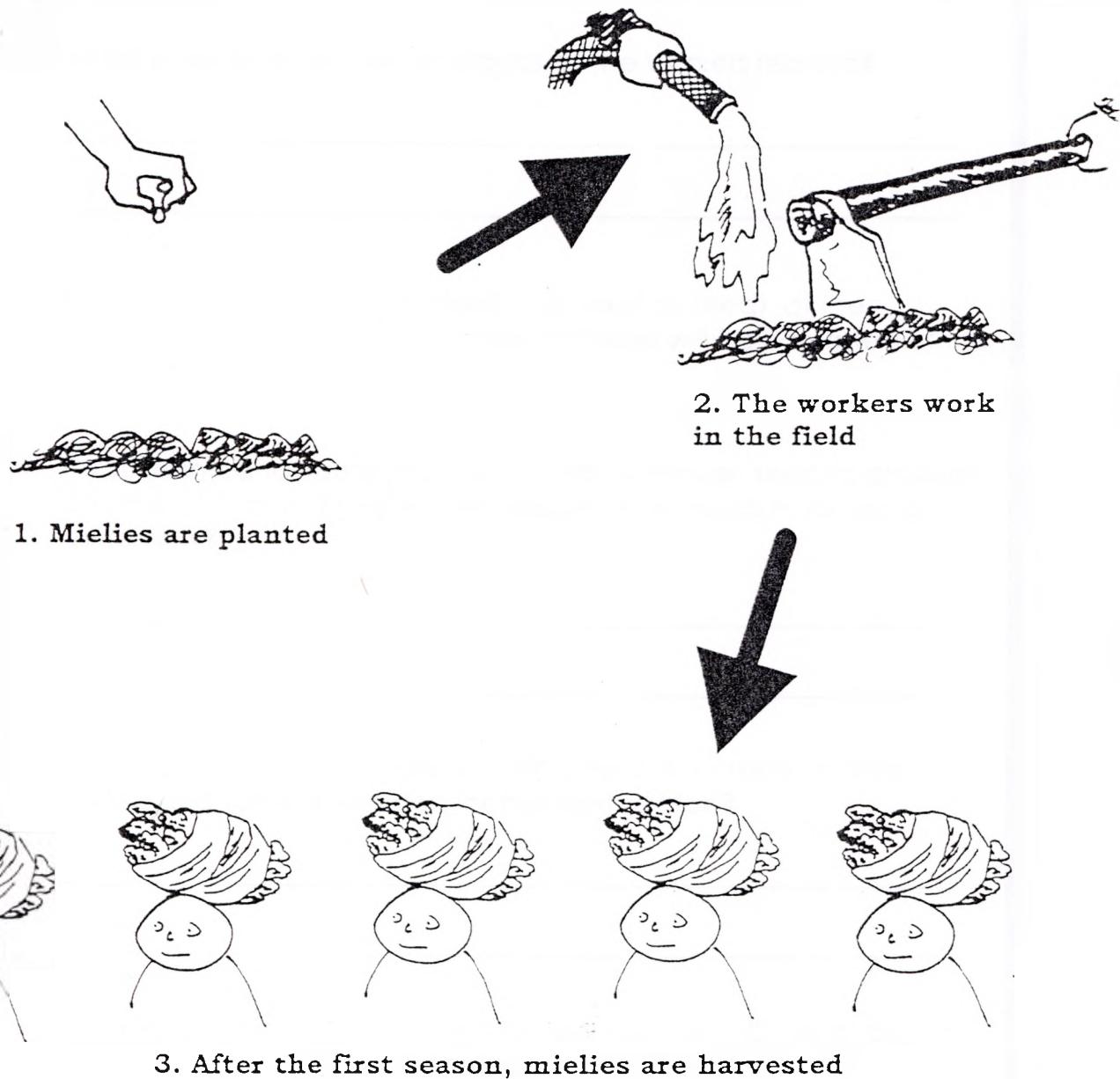
The land on which mielies are grown is owned by one landlord, a Mr Mzamo, and is rented out to a farmer, Mr Van Nierkerk.



The remaining people in the village work on the land growing mielies. They receive a wage (payable in mielies) for their work.

# 1: the simple economy

The activities at KwaMielie involve the following:



At the end of the first season, 100 tons of mielies are produced. There are 200 workers in the village. Each worker receives wages of 1/4 ton of mielies in order to sustain themselves and their families.

## Questions for Group Discussion

- ★ What is the total amount of wages all the workers receive?

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- ★ If one ton of mielies are planted ( i.e. used as seed) at the beginning of the season, ten tons of mielies will be harvested at the end of the season.
- ★ If you wanted to insure that you will have enough seed to produce another 100 tons of mielies next season, how much must you put aside now?

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- ★ How many tonnes of mielies are left after the workers receive wages and some is reserved for the next season?

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- ★ The mielies which are left-over is called the SURPLUS. What do you think happens to the surplus produced in the village?

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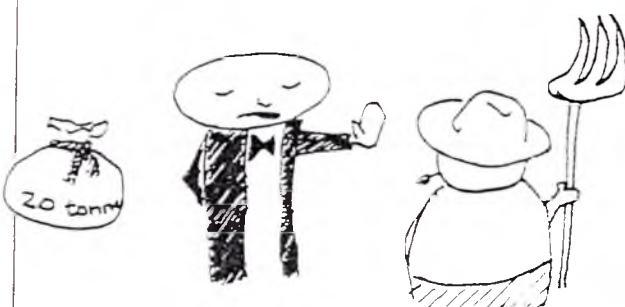
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## 2: economic growth and accumulation

Let's look at the village economy over two seasons. Use the answer sheet on the next page

### FIRST SEASON

Again, suppose total production was 100 tons and that wages are paid to 200 workers as in the first exercise.



However, this time the landlords decide to keep 20 tons of seed for the next season.

Question for Group Discussion:

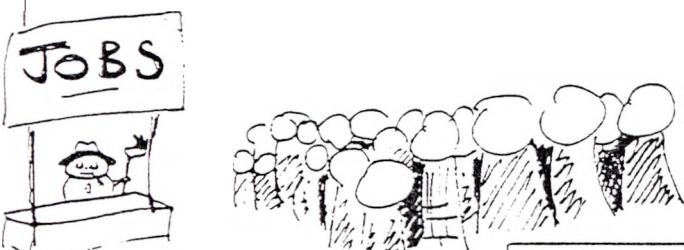
- ★ What is the surplus in this example? \_\_\_\_\_

### SECOND SEASON

Question for Group Discussion:

- ★ If 20 tons of seed are planted, what would be the total production in the second season? \_\_\_\_\_

Because of the increase in production, more workers are needed. Suppose 400 workers are employed during the second season.



The landlords decide to keep 30 tonnes of mielies to plant the following season.

Question for Group Discussion:

- ★ If each worker receives  $1/4$  ton of mielies, what are the total wages paid? \_\_\_\_\_

Question for Group Discussion:

- ★ What is the surplus at the end of the second season? \_\_\_\_\_

# Answer Sheet

### 3: markets

The farmer, on a visit to the home of one of the workers, for the first time tastes a brew called MaizeGin made by the wife of the worker. He likes it, and feels that many people would like it too. He sets up a workplace where he brews many liters of MaizeGin.

He hires 50 workers who produce 200 liters of MaizeGin. He pays the workers in MaizeGin, 2 litres each.



## Questions for Group Discussion

- ★ How would the workers who get paid in mielies get hold of MaizeGin, and how would those who get paid in MaizeGin get hold of mielies?

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- ★ If many more products are produced in KwaMielie, would the solution you suggested above still work? If it does not work, how would workers get the products they want?

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- ★ What institutions in our society make up the market for goods and services?

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- ★ What institutions make up the market for capital?

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- ★ What is the price of capital or of money?

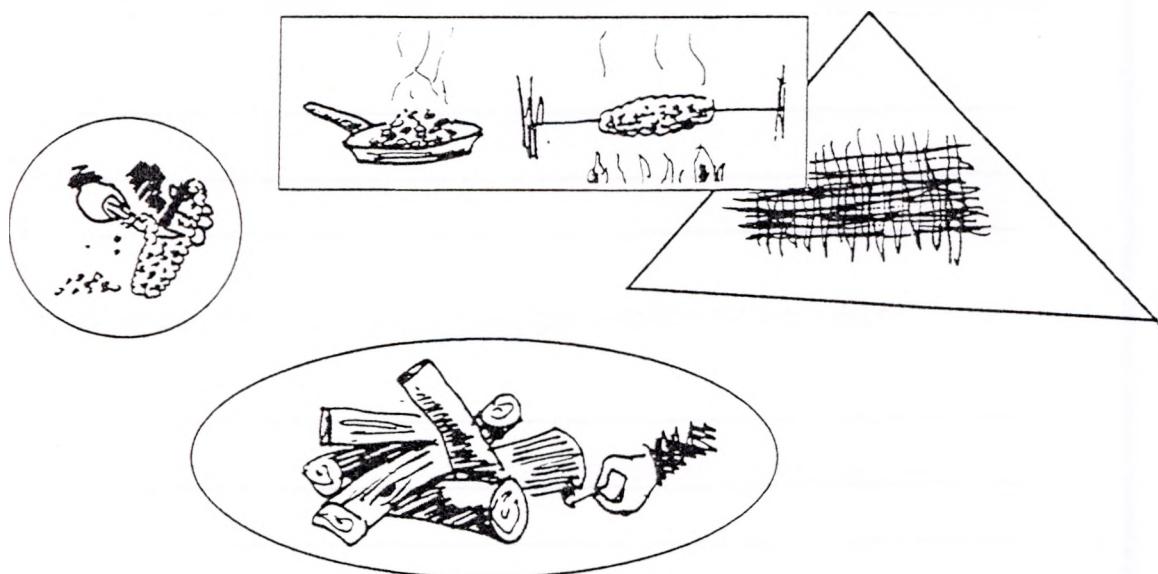
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# 4: reproduction

The workers bring the mielies back to the households, but the mielies is not ready to be consumed. It is not in a form that is useful to the family. It needs to be prepared, cooked, and the fibers woven. A fire needs to be built. Waste needs to be disposed of. The household must be maintained.



## Questions for Group Discussion

- ★ Who does the work necessary to transform the mielies into something useful for the household and the family?

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- ★ Why do these people do the work?

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- ★ How is this work different from the work in the fields?

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**Suppose each year 20 workers become too old or sick to continue working.**

### Questions for Group Discussion

- ★ Who would replace the workers who retire or who become sick?

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- ★ Who pays for raising the next generation of workers?

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- ★ Who would perform the labour necessary to take care of the elderly or the sick?

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- ★ Who benefits from this care of the young, sick and elderly?

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# 5: the state

## Questions for Group Discussion

- ★ Think back to what happens to the surplus and who it went to. What would happen if there is a major conflict about this ?

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- ★ How would such a conflict be resolved ?

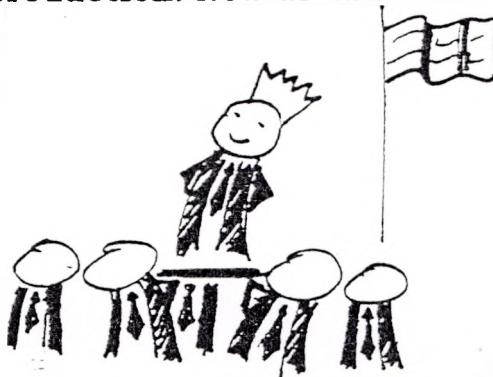
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Think back to the very first exercise in which 100 tons of mielies are produced. There are 200 workers, each of whom receive 1/4 ton. 10 tons are set aside for future production. Now assume that there is a new player in the economy -- the village government.

The government imposes taxes on the citizens of KwaMielie. The taxes are 5 tons of mielies from the workers and half of the surplus of the landlords.



## Questions for Group Discussion

- ★ What is the total amount that the government receives in taxes?

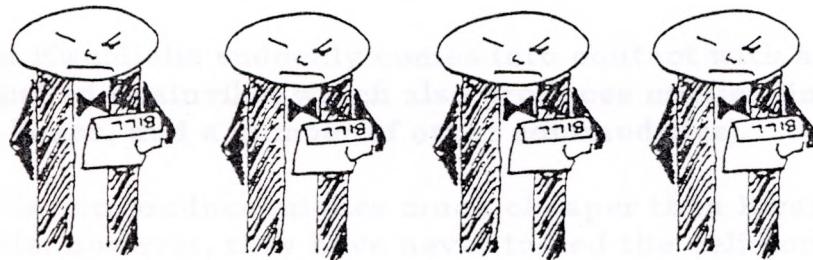
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- ★ What can the government do with the taxes it receives?

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Suppose the landlords think that the taxes they pay are too high.



### Questions for Group Discussion

- ★ What could the landlords do in order to encourage the government to lower their taxes?

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- ★ If the government wanted to keep the same amount of total taxes, but reduce the taxes which the landlords pay, what would it do?

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# 6: international trade

Suppose KwaMielie suddenly comes into contact with a larger village called Grainville, which also produces mielies (in addition to rice, beans, and a number of other commodities).

Grainville can produce mielies much cheaper than KwaMielie. In Grainville, however, they have never tasted the delicious MaizeGin. And now they like it very much.

## Questions for Group Discussion

- ★ What would the residents of KwaMielie do if they found out that mielies was so cheap in Grainville?

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- ★ What would happen to the price of MaizeGin in KwaMielie?

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- ★ What would be the impact of these developments on the economy of KwaMielie?

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- ★ What would you suggest the residents of KwaMielie do to avoid, or solve, the impact of cheap mielies from Grainville?

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Let us say the KwaMielie residents decide to focus on producing MaizeGin. They succeed in keeping the recipe secret. There is a large demand for the gin from Grainville, but KwaMielie does not have enough capital to invest in production of MaizeGin.

### Questions for Group Discussion

- ★ What would you suggest the factory owner in KwaMielie do to solve this problem?

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Now let us say the villages of KwaMielie and Grainville use different mediums of exchange:



In KwaMielie it is the Mieliesdollar and in Grainville the Graindollar. Each of the villages cannot use their own monies in the other village.



### Questions for Group Discussion

- ★ How would the residents of KwaMielie go about buying things in Grainville, and vice versa?

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Suppose the landlords decided not to re-invest the 10 tonnes of mielies and instead keep it as surplus to make up for their losses due to competition.

### Questions for Group Discussion

- ★ What is the value of the surplus now?

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- ★ What would this do to the potential for future economic growth?

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- ★ What are other ways the landlords could protect their surplus in the face of international competition?

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- ★ What are some reasons why KwaMielie might find it beneficial to trade with Grainville?

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## Worksheet 4.1

In your group prepare your response to the following question assuming you were one of the following players:

### *A Factory Owner - "Healthy Bread Enterprise"*

produce bread  
labour intensive production  
high wage and unionised  
import wheat  
recently borrowed from bank to expand production

### *A Spaza Shop Owner*

most profit comes from selling bread  
uses family labour  
sell to residents in Tembisa  
paying bank for loan to start up spaza

### *The Sole Wage Earner for a Family of 5*

Man works at Healthy Bread Enterprise  
Wife at home, young daughter at high school, son at university, and one son unemployed  
Recently moved to new house: got Department of Housing subsidy and bank bond

### *A Bank manager*

lends money to factory, Spaza and bond to worker  
high tech, mostly imported  
borrowed money from New York bank to expand operations

Each Group must discuss the following questions:

1. What Impact will the following economic change have on you

An increase in the prices of goods  
An increase in interest rates

A decrease in taxes  
A fall in the currency rate.

2. What action will you take in response to the changes listed above ?
3. How will your actions affect the different people in your company or home?

In Plenary, after each group report the following question should be discussed:

4. How will the measures taken by the other groups affect our group?

## Worksheet 5.2

Do the following exercise working in a group.

Each Group is to have three big sheets of different colours and they will write "Neo-classical" on one, "Social Democratic" on the other, and "Marxist" on the last one.

They will also have smaller cards of same colour. On these cards they will write down the following social groups: Worker; woman worker; housewives; students; small business; spaza owners; medium sized business; big business; peasant; bank; teachers; brain surgeon at private hospital; unemployed.

The group must discuss the following question:

Which of the social groups above do you think each of the different approaches and solutions to economic crisis benefits or favours?

The group must answer by sticking the white cards onto the one or more of the big boards.

During report back in plenary all the boards will be put up and differences will be debated by the different groups.

plier process will lead to economic growth. If the businessman thinks there will not be enough buying power he will not commit new invest, and he might even cut back on existing investment. The multiplier process will now work in reverse, and economic activity will shrink.

## The Solutions

- ◆ The Keynesians argue that the solutions to economic crisis is for the government to intervene and push up demand whenever the businessmen begin cutting back on investment.
- ◆ The government can do this by spending from its own money or fiscus. The government must do this even if it has to borrow money to spend. This is called deficit spending.
- ◆ The spending by the government will play the same role of the investment multiplier and it will lead to increased spending in the economy and to increased levels of economic activity. As the businessmen get contracts from the government they will also trigger off the investment multiplier process.

## Summary of Input: Monetarist, or Neo-liberal, Explanations of Economic Crises

### The sources of economic breakdown

1. The Monetarist, led by Professor Milton Friedman from the University of Chicago(USA), developed their theories of the sources economic crisis as a result of the world wide economic crisis that broke out in the late 1960s.
2. The Monetarist argue that the main source of economic breakdown is inflation. Inflation means that the prices of goods and services are increasing on a continuous basis.
3. The argument of the Monetarist involves a number of steps:
  - Governments are the cause of inflation because by adopting methods like deficit spending they create more money in the economy without necessarily ensuring that this money is accompanied by increases in output.
  - Another way in which governments create money is by getting the central banks, which governments used to control up to the 1990s, to buy government bonds owned by individuals. This leads to the influx of money into the system.
  - When more money enters the system without an equal rise in output, this leads to inflation.
  - As inflation rises, businessmen are unable to make proper investment decisions because there is uncertainty about prices and therefore the businessman (i) will not be able to know what prices he will have to pay in future, and (ii) he does not know at what prices he will be able to sell his good in future. Inflation introduces uncertainty among economic decision makers, and in this way it contributes to crises.

### The Solutions

- ♦ Since the key cause of breakdowns in the economic cycle is the creation of too much money by governments - which leads to inflation - through deficit spending and other means, the Monetarists say that the way of avoiding crises is for governments to move out of the economy.
- ♦ In practice this means:
  - ⇒ that government must not engage in deficit financing; they must only spend money that they get in taxes - this is known as balancing the budget.

- ⇒ Central Banks must be independent and they must create money at a rate that is higher than increases in the level of output. Their main role must be to fight inflation by using interest rates to discourage demand that may lead to an increase in prices
- ⇒ the government must cut social expenditures, and this will help the government balance the budget
- ⇒ the government must cut taxes that affect the business community so as to encourage them to set up factories. This leads to taxes like VAT, which shift the tax burden away from the rich and towards the poor.
- ⇒ state owned enterprises must be privatized in line with the approach of getting the state to move out of the economy.