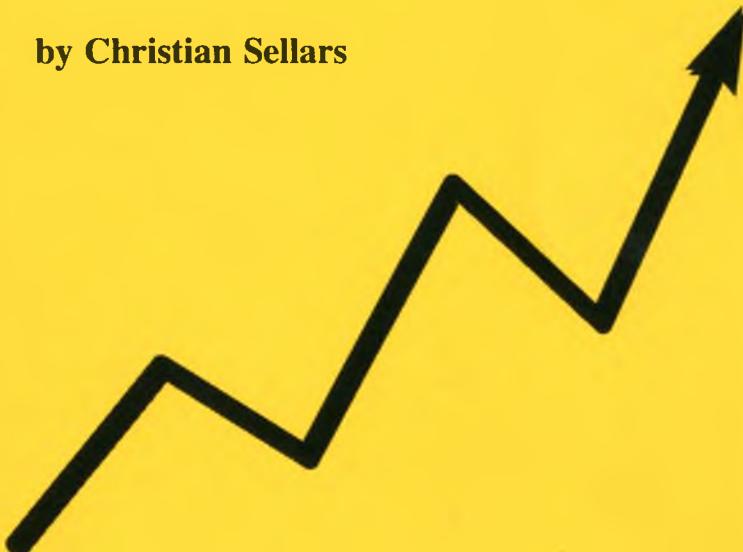




*South African Network
for Economic Research*

**The organisation and behaviour of interest groups:
A theoretical review and application to South
Africa**

by Christian Sellars



Working Paper 1
Cape Town, February 1997

*Preliminary material and interim research results circulated
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The organisation and behaviour of interest groups: A theoretical review and application to South Africa

by Christian Sellars

Chemical Workers' Industrial Union



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Introduction

In recent years, South Africa's business and union leaders have often been called on to replicate the country's substantial political achievements, in the economic sphere. Two important documents released in mid 1996 discuss the establishment of structures to facilitate dialogue between government, labour and business. The purpose of this would be to try to find ways of generating the growth and employment sorely needed in the country if democracy is to lead to any improvement in the living conditions of the majority. The government's macroeconomic strategy paper - 'Growth, Employment and Redistribution,' commonly referred to as GEAR, was released first, followed by the report of the Labour Market Commission (LMC) convened by the President to investigate labour policy.

The GEAR document proposes 'a broad national agreement to create an environment for rapid growth, brisk investment and accelerated delivery of public services' (1996: 26). The agreement would be needed to prevent the recent depreciation of the Rand from triggering a vicious cycle of wage and price increases which would destabilise financial markets and undermine the competitiveness of local industry. This could be achieved, GEAR argues, if labour and business were willing to consider the restraint of wages and prices.

The idea of a national agreement is further elaborated in the LMC report, which proposes a 'National Accord' (1996). This proposal follows from the LMC's belief that the negotiation of economic issues through institutional structures, as opposed to direct regulation by government statute, is both socially desirable and economically efficient (*ibid*, 219). Price restraint, wage restraint and investment decisions, together with tangible commitments from government on training, social welfare provision and industrial promotion would be the main issues covered by the accord.

South Africa's economic policy framework has been subject to heated debate since the release of GEAR. The union movement has expressed serious reservations about the market orientation of the government's macroeconomic strategy. Given this position, together with the complex and fragmented structure of interest organisation in South Africa, the prospects for an accord or national agreement are not promising. Yet, the government has expressed the desire to set one up.

This paper provides a review of political theory on interest groups. The purpose of this is to draw concepts and ideas from contributions in this area to see if they can shed any light on the nature of interest group interaction in South Africa, particularly with respect to the possibility of establishing a social accord. The review draws from two bodies of thought. The first is the theory of corporatism and the second that of public choice (often

referred to as rational choice). Corporatist theory has enjoyed a fair degree of popularity amongst South African social scientists. However, the debate between them has not progressed very far, mainly due to confusion over terminology. Further, as argued Section 1, some local contributions have misread the international literature, ignoring aspects which might be of relevance to South Africa. These omissions are re-examined, but the section concludes that there are limitations in the extent to which corporatist theory is able to explain the dynamics of interest group formation and behaviour.

Section 2 tries to find alternative explanations in the theory of public choice. The methodological integrity and general value of public choice theory has been strongly questioned (Green & Shapiro, 1994). While the paper provides a synopsis of public choice literature and a review of its critics, the focus is on the analysis of collective action. Despite the shortcomings which it shares with general public choice, this analysis provides useful theoretical pointers which can assist in developing an understanding of interest group dynamics which goes beyond corporatist theory.

In the third section, the paper comes back to South Africa and looks at the recent history of interest organisation to establish whether any of the theoretical tools picked up in previous sections are helpful in understanding the local experience. After a general background, the section goes into the discussion of three particular issues, being: community participation in policy formation, trade policy and the labour market.

Section 4 acknowledges that there is potential to build the capacity of interest organisations in South Africa and to restructure their interaction in socially beneficial ways. However, a number of issues are identified which mitigate against the conclusion of an effective social accord. These include the weaknesses evident in interest group organisation, the alliance between the African National Congress and the union federation Cosatu,¹ and the absence of competition in South Africa at party political level. It is concluded that electoral reform might be a better means of democratising the country's political environment than attempts at managing interest groups.

Section 1. Corporatism

South African views on corporatism

The GEAR document notes the strong tradition of collective bargaining which characterises the South African industrial and social environment (1996). The implication of this for policy formation under legitimate government was the subject of extensive discussion in the period leading up to South Africa's first democratic elections. Much of the literature generated in the course of this debate was grounded in corporatist theory.

A common understanding of terminology should be the starting point for the fruitful discussion of theoretical issues. It is at this early stage that the local corporatist debate comes unstuck. The concept of corporatism is used and understood in as many ways as

¹ The Congress of South African Trade Unions

there are writers on the topic. Von Holt argues that negotiation between business, labour and government in the early 1990's over training, trade policy, productivity and other issues created the conditions for corporatism (1993). This he defines as 'an institutional framework which incorporates the labour movement in the economic and social decision making of society' (ibid: 48). Nattrass echoes this view, describing corporatism 'primarily as a interactive process involving consultation between labour, state and capital' (1994: 4). The definition given by Baskin is similar, although he adds that corporatism would include an acceptance by labour and capital of some restraint of wages and prices in exchange for influence over economic policy making (1993).

Maree provides a review of various contributions to the international corporatist literature, but leaves his own understanding of concept unstated (1993). Thus, when he asserts that the South African labour movement entered into 'fully fledged corporatist agreements with state and capital' from 1990, it is unclear what exactly is being referred to (ibid: 30).

In a review covering most of the above contributions, Schreiner states that 'all writers recognise corporatism as a particular of relationship between capital, labour and state' (1994: 4). But:

ultimately, they say very little about this form and the dynamics of the relationships they are describing... [This] leaves a whole series of questions unanswered... such as - in what ways are the various parties organised; through what mechanisms are they bought together; why do they come together; what about other interest groups? In the absence of this information it becomes extremely difficult to establish whether corporatism really exists, why so if it does, and what it might evolve into in future. (ibid: 5)

In his own attempt to answer these questions, Schreiner sketches the early history of corporatism and then assesses its more recent revival. From the former he finds that the concept is associated with 'fundamentally undemocratic forms of governance', from the elitist ideology proffered in 19th century Catholic cultures, to more familiar examples of fascism in 20th century Italy, Spain, Portugal and Germany (ibid: 7). In the early seventies, corporatism is rediscovered and used to explain relationships between interest groups and state in social democracies. For Schreiner, modern corporatism remains fundamentally undemocratic. Drawing from Schmitter and Williamson, he develops a 'general model' of social democratic corporatism which is defined by:

- state licensed interest organisations characterised by 'top down' decision making;
- relationships between these organisations and the state which allow the latter to intervene effectively in production and to implement policy;
- the use of these relationships (and the power to license) to enforce the compliance of interest organisations to state policy. (ibid: 9)

The importance of this working model, he argues, is that it seeks to enquire about, and begins to define, the dynamics of the relationship both between and within the corporatist parties (ibid: 10). But, using the model to find answers to the questions posed earlier is a disappointing exercise. i.e.

In what ways are corporatist parties organised?

They are hierarchical, top down organisations.

How and why are they brought together?

Through government licensing to implement and enforce compliance with policy.

What about other interest groups?

They are excluded from the process as a consequence of the licensing, monopoly representation and compulsory membership enforced by the state.

Does Schreiner's model provide a fair description of corporatism in a social democratic context? To answer this, the international literature needs a revisit.

The international literature on corporatism

Nattrass notes that the terminological disputes evident in the local corporatist debate 'mirror the international literature' (1994: 3). Of course, the distinction between the two is the fact that the international corporatist debate has raged for over twenty years, generating a mass of theoretical work and comparative study. It should thus be of assistance in cutting through the confusion of the local debate.

The roots of the 1970's corporatist revival lie in the inability of the then dominant pluralist perspective of political analysis to explain relationships between interest groups and state in certain social democracies. Pluralism regards political competition as the basis of interest group influence over the state. Groups which are affected by or require state action use their political resources to lobby government (Cawson, 1986). The state is seen to be neutral in this process, 'disengaged from interest conflict' (Cawson, 1985: 2).

The post war emergence of monopoly representation in key sectors of society in Austria, Sweden, Norway and other social democracies did not conform to the competitive conception of politics held by pluralists. Further, the structured position of monopoly representative groups within the process of policy making and implementation contradicted the pluralist assertion of state neutrality (Schmitter, 1985).

An accurate definition of corporatism would need to capture what it is about corporatist theory which is able to explain phenomena left unexplained by pluralism. Grant provides such a definition:

Corporatism [refers] to a process of interest intermediation which involves the negotiation of policy between state agencies and interest organisations arising from the division of labour in society, where the policy agreements are implemented through their willingness and ability to secure the compliance of their members. (1985: 4)

Negotiation and intermediation are thus the two key elements of corporatism which give the theory its explanatory power.

Corporatist interest groups do not lobby the government, they negotiate, implying movement from a position of autonomous political influence. This is quite different from the idea that governments are able to impose a corporatist structure on society. Schmitter notes that post war corporatist arrangements have come about not through 'deliberate, grandiose efforts at political design', but rather:

They have been the largely unintended outcome of a series of crises in which none of the class or state actors involved was capable of imposing its preferred solution upon the others. Typically, they began as second-best compromises which no one really wanted: hence their general invisibility, their uneven distribution and their precarious legitimacy. State actors would usually have preferred authoritative regulation; business representatives an allocation through market forces; and labour leaders a redistribution of wealth. (1985: 37)

The notion of intermediation describes the dynamic which underpins corporatist arrangements and take us 'beyond the pluralist analysis of bargaining between groups and government' (Grant 1985: 20). Intermediation can be described as the process through which organisations in corporatist societies exercise control over their members in compliance with the conditions of agreements (Cawson: 1986). An important point about this control is that, even in social democracies, it is underwritten by state coercion which takes the form of the 'explicit or implied threat of legal regulation if corporatist agreements break down' (ibid: 6).

Intermediation is of limited value for national policy formulation unless the organisations through which it is arranged are nationally organised and have monopoly membership of their potential constituencies. Organisations with low representativity will obviously have little success in securing broad compliance to national agreements. Effective intermediation can therefore be facilitated by government assisting organisations to attain monopoly status, either by licensing them or by insulating them from competitive pressure (Schmitter, 1985; Cawson 1986). In general, it is functional interest organisations, that is 'groups which arise out of the division of labour' such as unions, business organisations or professional associations, which are able to organise in this way (Grant 1985: 21).

Corporatism is not widely regarded as a universal theory of politics (Cawson, 1985). To this extent it should not be viewed as new paradigm of political analysis which attempts to supplant pluralism. Rather, as argued above, it explains particular arrangements which pluralism cannot account for. There is no reason why corporatist and pluralist relationships should not be evident in the same country at the same time (Cawson 1986). What corporatism offers us is a middle range theory of interest group intermediation (Grant, 1985). That is, a theory which 'lies between all inclusive general theories of social system that are too remote from social reality to account for what is observed, and detailed descriptions of particular phenomena that are not generalised at all' (ibid: 26).²

² Schmitter takes the discussion of corporatism's status in the social sciences a step further. He describes an associative-corporative model (driven by intermediation) distinct from, but comparable to the dominant models in social science, being: community, market and state, driven by spontaneous solidarity, dispersed competition and hierarchical control, respectively (1985). The associative-corporatist model is not expected to prevail over other models. Rather it is argued that "modern social order is composed with a mix of institutions with different actors, motives, media of exchange, resources, decision rules, cleavage patterns and normative foundations - and

In summary, there are three points which have been highlighted here which might be of guidance in assessing the corporatist debate in South Africa:

1. Corporatism is not a grand all encompassing political system. It is rather just one means of organising the interaction of interest groups with government.
2. Parties which engage with government in corporatist arrangements (at least in social democracies) have power which is prior to this engagement. In the absence of such arrangements, this can be used to obstruct government's programme.
3. Corporatism is a reciprocal system where monopoly interest organisations are expected to secure the compliance of membership to the terms of agreements with government.

Returning to the local debate, the first question which arises from these points is: could the structures and relationships between labour, government and state evident in South Africa be described as corporatist? It would certainly have been premature to answer in the affirmative before the 1994 national elections given the illegitimacy of government and the imminent transfer of power to the African National Congress, as most the contributions considered above did.³

Schreiner echoes this caution, but believes that corporatism is nonetheless a possible outcome for the current situation in South Africa (1994). A pluralist system of interest organisation, termed laissez faire lobbyism, is seen as a further possibility. In Schreiner's view, either of these scenarios, or a mix producing a 'weak form' of corporatism would be fundamentally undemocratic.

He argues instead for new system of policy formulation 'premised on the principles of extending the processes of democratisation and empowerment of the most marginalised groupings within society' (ibid: 14). These principles are given only in broad terms but include: guarantees that all relevant interest groups are involved in formulating policy, that this occurs within a broad, constitutionally guaranteed system of policy formulation, that the state provides marginalised organisations with financial resources needed to participate, and that proceedings and documentation are open for public scrutiny.

In sum, Schreiner is dismissive of both pluralism and corporatism and proposes 'democratisation' through inclusive policy formation, transparency and the empowerment of weak interest organisations as an alternative. As examined later, it could be said that the nature of participative policy formulation structures established after the 1994 election were strongly influenced by this view.

that the traditional trio of community, market and state fails to explore all the possible bases and combinations" (ibid: 51)

³ Three years on from the election, it is still difficult to determine whether corporatism exists in South Africa (as explored in section 3 below). The limited scope for reciprocity evident in tripartite discussions, the absence of monopoly representative bodies and the readiness of the "social partners" to use direct (pluralist) means to influence government, all point to the existence of an extremely weak form of corporatism, if any.

There is no doubt that corporatist arrangements can lead to undemocratic outcomes. The question is, undemocratic compared to what? In dismissing both corporatism and pluralism, Schreiner overlooks the reason why democratic governments have chosen to bind themselves into agreements with business and labour in the first place. Simply, in the absence of such arrangements, these interest groups would have the capacity to embark on independent action which could result in undemocratic outcomes which are not in society's interest. Corporatism is seen to be preferable to pluralism because it makes the allotment of state favour contingent on interest group reciprocation. A potential danger in Schreiner's alternative is that it could establish an order where lobbying for socially detrimental ends is concealed behind the facade of trumped up negotiation between the state and self-styled, or worse still, state-styled, community representatives.

To evaluate Schreiner's proposals in more depth, it would be necessary to interrogate the assumptions on which they are based. If resources and inclusive structures are made available by government, will this lead to the empowerment of marginalised communities? Why are marginalised communities not organised in the first place? Why have only organisations representing functional interests been able to organise to the extent of entering into corporatist arrangements with government?

None of the local contributions on corporatism have answers to these questions - but then, neither does the international literature. Corporatist theory says little about the actual dynamics, or causal mechanisms, which underlie interest group organisation and behaviour.

Section 2. Public Choice Theory

What is public choice theory?

Public or rational choice theory can be defined as the study of non-market decision making using the assumptions and deductive logic of neo-classical economics (Mueller, 1976). It has been described as the 'wunderkind' of the social sciences (Mueller, 1986) and there is no doubt of its growing influence in political analysis (Green and Shapiro, 1994). The main motivation for discussing public choice here is to see what it has to say about interest group dynamics. It will be valuable however, to briefly outline the principles of public choice, the areas to which it has been applied and the criticisms which have been levelled at it.

A central claim of economics is that under certain conditions⁴ the self-interested actions of individuals will lead to outcomes which are beneficial for society at large. The 'invisible hand' channels economic activity in a way which enhances general social welfare, even though this is not a conscious objective of those engaging in the market. Much of public choice theory is concerned with the fact that in governments, trade unions, business organisations and other non-market institutions, individual behaviour, although driven by

⁴ Including perfect information, open competition and rational behaviour

the same motives evident in the market, can result in outcomes which are detrimental to social welfare.

The foundations of public choice theory are comparable to those of neo-classical economics. The primary postulate which underlies all public choice theory is that individuals behave as rational utility maximisers. A further assumption, referred to as 'methodological individualism' (Buchanan, 1987), is that political outcomes are the consequence of the individual actions (as opposed to group actions). A third assumption, termed 'politics as exchange', characterises political activity as a process through which individuals secure 'their own privately defined objectives that cannot be efficiently secured through simple market exchange' (ibid: 246).

Shapiro and Green identify three major areas in which public choice theory has been applied (1994). The first concerns the legislative process, particularly the extent to which policy is able to reflect popular sentiment. This has grown out of Arrow's impossibility theory which exposed the limitations of voting procedures in generating stable results consistent with voter preference. Down's theory of democracy, covering political competition and the objectives and strategies of political parties, forms the foundation of the second area. The third, concerned with collective action, is drawn from the work of Olson. Olson's theories on the conditions necessary for collective action are of particular relevance to interest group analysis.

Critiques of general public choice

As could be expected, practitioners in other branches of social science have not responded warmly to the extension of the rational individualism of economics into their domain (Quiggin, 1987). There are two critiques of public choice which need consideration. The first is the common contention that neo-classical behavioural assumptions are unrealistic. The second, more damning criticism, is that public choice theory cannot account for observable political phenomena.

The charge that public choice assumptions are unrealistic is often based on the interpretation of utility maximisation as wealth maximisation (Evans, 1992). The assumption that the latter provides the motivation for all human behaviour is easily falsified. Buchanan counters this by saying that utility maximisation merely requires that individuals regard identifiable economic self interest, for example, net wealth, income or social position as a positively valued good (1987). The problem with this defence is that the assumption becomes so flexible as to be unfalsifiable. Using Buchanan's definition, any observed behaviour - altruism, philanthropy, even self destruction - can be rationalised as being an example of utility maximisation.

Economists commonly hold an instrumental view about the use of assumptions. Following Friedman, it is accepted that unrealistic premises may be used for the purpose of developing theoretical models (Blaug, 1985). The test of the resultant model's validity should be based on its explanatory and predictive power, rather than the realism of its assumptions.

A reasonable argument can be made that to exclude a theory from consideration because it is drawn from unrealistic assumptions is unnecessarily prescriptive and ultimately could frustrate the development of new explanations and insights. However, theories developed from such assumptions are only of value if the explanations and predictions which they generate are empirically sustainable. The problem with the vast bulk of public choice theory is that its protagonists seem happy to engage exclusively in the exercise of instrumental model building. Little attention has been paid to testing the resulting theory against empirical data (Green & Shapiro, 1994). This leads us to the second, more threatening criticism of public choice theory - that it cannot account for observed political behaviour.

Public choice theory is incapable of explaining the most basic political act - that of voting. Voters have a minuscule chance of exercising a decisive vote, that is, a vote determining which candidate is elected in an otherwise tied contest. Further, it would be very costly to determine how one would fare under the policies of contending candidates, and thus how one should vote. On cost benefit grounds the postulates of public choice would thus predict that rational voters would not vote. The fact that they do vote is termed Down's paradox (Quiggin, 1987).

There are many other examples where the observed outcomes of political processes contradict those predicted by public choice theory (see Green and Shapiro, 1994). This failure has to do, perhaps, with the complexity of political behaviour as opposed to economic behaviour. As Krugman observes:

'economics studies human beings in their simplest (if least edifying) activities. The marketplace is special among social interactions in that it is subject to certain logical regularities' (1995: xii).

The ability of economics to develop useful hypothesis from simple assumptions in the realm of the market can be attributed to the existence of such logical regularities. Equivalently, the shortcomings of public choice in parts of the political domain might be indicative of the complexities of politics.

One of the most problematic aspects of public choice theory is that many of its protagonists have universalist aspirations - that is, they believe all political phenomenon can be explained using the assumptions and deductive logic of the theory (Green and Shapiro, 1994). In the face of failures like Down's paradox, the approach often is to write off such areas of application and to focus instead on areas where the theory is more successful. Explanations from other social sciences are rarely considered or evaluated as alternatives to those of public choice, and there has been little attempt to define the *ex ante* conditions under which public choice analysis would have salience (ibid: 45). It is not the intention to develop such conditions here. Rather, bearing the above limitations and cautions in mind, the following section looks at a limited application of public choice, that of collective action analysis, to see if it is able to generate plausible and useful insights into the behaviour of interest groups.

Analysing interest groups

Why and how organisations come to exist

Public choice theory explains the existence of political institutions by the fact that they provide public or collective goods and services which the market is unable to supply (Buchanan, 1987). This inability stems from the two defining characteristics of collective goods: firstly they are non-excludable in that it is impossible to prevent anybody in a particular group from consuming them; and, secondly they are 'non-rivalrous in consumption' i.e. the amount of the good available is not reduced by the consumption of any individual in the recipient group (Brubaker, 1975). Common examples of collective goods include: national defence, the enforcement of law and pollution control at societal level; and, the services of trade unions, business organisations and professional associations at organisational level.

Collective action is subject to free riding, as illustrated in the tragedy of the commons.⁵ This can lead to the underprovision of desired public goods. From this, Olson comes to the striking conclusion that the recipients of collective goods contribute to their provision for reasons other than the value derived from them (1982). He argues that effective non-market organisations exist because of their ability to apply targeted rewards or penalties, termed 'selective incentives', to members on the basis of whether or not they contribute to the costs of the collective goods which the organisation supplies (ibid: 21). These incentives can be either negative, such as coercion, the threat of public humiliation or deregistration, or positive, such as access to valuable information, special rates on services and preferential treatment over non-contributors.⁶

Given the problems associated with public good provision, Olson argues that interest groups will not be able to organise properly without selective incentives, no matter how attractive the collective goods which they have the potential to provide (ibid: 25). Bodies such as trade unions, business organisations and professional associations are thus well organised as a consequence of having found selective incentives to apply to membership.

⁵ Probably the most widely used illustration of the failure of collective action, the tragedy of the commons refers to a situation where grazing land is made available for public use (Green & Shapiro, 1994). Each herder faces an individual incentive to graze as many cattle on the land as possible. Where all herders follow this course, the commons become overgrazed and unusable. Thus, while there is a collective incentive for all herders to limit their use of the commons, individual incentives lead them to taking action which is ultimately suboptimal.

⁶ Olson includes social pressures in the categorisation of positive and negative selective incentives. He sees the appreciation of companionship and respect and the fear of exclusion and ostracism as powerful and inexpensive means of influencing behaviour. However these "are available only in certain situations ... [having] little applicability to large groups ... [and being] limited by social heterogeneity" (1982: 24). In other words, in groupings such as families, small associations and the like, where all members know each other well, social selective incentives would be very influential. But they would be less effective in organisations covering a broad mass of people.

However, as there are few means of either coercing consumers, tax payers, the unemployed and the poor or of giving them targeted benefits, these groups will not, in all probability, be represented by effective organisations.

If selective incentives are unevenly distributed, it is unlikely that societies will attain a symmetrical organisation of all groups. From this Olson concludes that a process of national bargaining amongst organised groups will not result in equitable outcomes (ibid: 36). He argues that it is in the interest of organised groups to focus solely on maximising their own benefits. In doing so, they will choose policies which 'although inefficient for society as a whole, are advantageous for organised groups because the costs of the policies fall disproportionately on the unorganised' (ibid: 37).

The logic of collective action presented by Olson certainly has intuitive appeal. A plausible argument can be made that organisations such as trade unions and professional associations use both negative and positive selective incentives to elicit contributions from members. But empirical problems arise if the logic is taken in its pure form. In Olson's terms, the size, quality or frequency of collective good provision should have no effect on an organisation's membership - what matters is selective incentives. Repeated studies have shown that organisational membership increases with the collective benefits provided (Green & Shapiro, 1994: 84). The assertion that free riding in the absence of selective incentives is the sole reason behind the inability of consumers, the poor and other marginalised groups to organise is also questionable. Other factors such as repression by the state or dominant interests might prevent the emergence of latent organisations. Further, individuals might shun organisational membership due to apathy, ambivalence or antipathy toward politics, rather than just the desire to free ride (ibid: 81).

Incentives and organisational behaviour

Having established the necessary conditions for the existence of organisations, Olson applies his logic to the behaviour expected of organisations once they are established (1982). Organisations in the productive sphere, such as trade unions and business associations can serve membership in three ways - they can enlarge their share of total output; they can contribute to the growth of total output with the intention of increasing the value of the share which members currently receive; or they can do both.

From an organisational perspective, whatever the productive activities in which membership are involved, 'normally the demand for [their products or labour] will be greater the more prosperous the society' (ibid: 41). However, Olson believes that the task of making society more prosperous will be not be a priority for most organisations. While everybody stands to benefit from innovations which make the economy more productive, only the contributing organisation would carry the cost. So the problem of free riding evident in the establishment of organisations is also identified in their behaviour (ibid: 43). According to the logic of collective action, organisations will only provide collective goods if the benefits to society outweigh the costs of provision by a factor equal to the inverse of the fraction that the organisation's membership makes up of society. For example if

membership equals one percent of society, benefits must outweigh costs by a factor of a hundred.

A corollary to this reasoning is that, where actions benefit an organisation at society's expense, the organisation will continue to act until the cost to society outweighs the organisation's benefit by the same factor. Thus, for the organisation representing one per cent of society, costs must outweigh benefits again by a factor of a hundred. Olson refers to organisations which behave in this manner as 'redistributional coalitions'⁷ (1986: 172).

Again Olson's logic comes to conclusions which seem plausible. The behaviour of many special interest lobby groups definitely conform to his predictions. But the argument that this can be extended to all forms of political organisation is tenuous. There are many examples of non profit organisations which contribute fairly selflessly to the common good. Even organisations with vested interests, such as trade unions or business organisations, make principled stands on issues of importance to society which might not be to their immediate benefit. Business associations' acceptance of free trade or industrial unions' commitments to environmental protection would be examples of this.

Interest groups and political reform

The most commonly proffered prescriptions for political reform put forward by public choice theorists are variants of the 'constitutional constraint' (Buchanan, 1987; Tullock, 1981; Gwartney & Wagner, 1989). In essence this suggests that the negative social effects of minority interests lobbying government would be eliminated through consensual voting rules in the constitution. The practicality and desirability of such reform is highly suspect. A constitutional constraint would enfeeble government, limiting the possibility of legislative 'hijack' by lobbyists, but simultaneously thwarting all policy development efforts for which the slightest opposition existed.

Olson provides a more feasible alternative in the notion of 'encompassing organisation' (1982: 47). In terms of the logic outlined above, larger organisation face greater incentives both to provide collective goods and to desist from deleterious redistribution as its membership would be at the receiving end of a larger part of the total benefits and costs created. Hence, if means can be found to bring interests into increasingly encompassing organisations, their needs will come to approximate those of society.⁸

⁷ Olson's name for such organisations drawn from the micro economic contention that non productive activities aimed at redistributing wealth and income across the economy are damaging for social welfare. Redistribution is not seen as a zero sum game where wealth goes from one party to another. In the process of redistribution, there are net losses of wealth to society - these would include losses due to allocative inefficiency, rent seeking and x-inefficiency (Tullock, 1980).

⁸ The work of Calmfors and Driffil (1988) on wage determination is also broadly supportive of the notion that encompassing organisations behave in socially beneficial ways.

Olson is sceptical, however about the likelihood of business or union federations behaving in an encompassing way (ibid: 183). Affiliates or 'branch organisations' of such federations have power in their respective sectors which is prior to their affiliation to the encompassing structure. Branch leadership might thus face incentives (to maximise wages or profits in their sector by restricting the market for example) which lead to outcomes which are contrary to the interests of the federation.

There is a further possibility that the federation might be exploited by internal lobbies or caucuses, which could high-jack the national power accorded to federation leadership to further their own narrow interests. Olson expects that, as it became clear to the branches in the federation which were not involved in such exploitative behaviour that their support was permitting narrow interests to use the federation at their expense, mass disaffiliation would soon follow and the federation would collapse (ibid: 185).

Section 3. The South African Experience

Recent events in South Africa provide a very interesting, if complicated case study of interest group behaviour and interaction. As noted in the introduction, much has been said about the need for interest groups to come together to find solutions for the country's many social and economic ills.

This section is divided into three parts. The first provides a brief review of interest group interaction since the bilateral *Laboria Minute* of 1991. An assessment of interest group capacity is then provided and finally there is a discussion of three issues with reference to the theoretical concepts covered in previous sections. These issues are community participation in policy discussions, trade policy and labour market policy.

A review of interest group interaction

The first agreement between government, labour and business in modern South African history came as a consequence of an attempt by the National Party government to amend the Labour Relations Act (LRA) in 1988 (Patel, 1993). The amendments would have restricted union rights and job security (Baskin, 1991). Cosatu waged an aggressive campaign against them culminating in a general strike. Intense bilateral negotiation between business and labour representatives resulted in the ratification of the *Laboria Minute* in which both parties agreed to revert to the provisions of the old LRA. The government backed down and conceded to this agreement (Maree, 1993).

From this point, a number of policy development bodies were restructured to include proper representation from business and labour. These included the National Manpower Commission (NMC) and National Training Board (NTB). One of the conditions laid down by Cosatu for its participation in the former was that 'no draft legislation related to labour should be put before parliament unless it had been through the NMC' (ibid: 32).

With the unbanning of the African National Congress and the commencement of constitutional negotiations, the National Party's ability to fulfil the legislative and executive functions of government were further circumscribed. In November 1991, a strike ostensibly aimed at preventing the introduction of Value Added Tax (VAT) on food, was nonetheless driven by a more general demand from labour for a economic negotiating forum to prevent unilateral reforms by government (Naidoo, 1991). Government acceded to this demand and the National Economic Forum (NEF) was launched in October of 1992 (Maree, 1993).

The participants of the NEF were drawn from organised business, organised labour and government (Patel, 1993). Issues tabled in its initial sessions included job security, job creation, foreign investment, export processing zones and trade policy. Encouraged by the establishment of the NEF, a number of other forums were also set up: in specific policy areas (the National Housing Forum and others), in industries (Clothing & Textile, Auto) and in regions (ibid: 11).

The National Economic Forum did not accomplish much, but then its purpose was to block unilateral reform by the National Party, rather than to develop new policy. Progress in the NEF was frustrated by the fact that 'it was impossible to reach major agreements in the knowledge that the government negotiating partner was about to change' (Patel, 1993: 10). In addition, there was no common understanding in the first place as to what the forum was supposed to achieve. Commenting on interviews with labour and government leaders, Tito Mbonweni observed that:

It is quite clear that they approach the NEF from completely different angles ... [Government] sees it as a forum to reach consensus, Cosatu sees it as a negotiating body which [would generate] binding agreements. It seems that these key forces in the NEF have glossed over a fundamental difference about the status of deliberations. (1993: 56)

Organisations did not have the capacity to participate effectively in the NEF, NMC and the plethora of other structures on which they were represented (Naidoo, 1993). In addition, many of these bodies had no statutory or formal status. In 1995, a new consultative body - the National Economic Labour and Development Council (Nedlac) - was set up with these concerns in mind. This incorporated the functions of the NMC and NEF and was established in statute by the Nedlac Act which requires government to table all significant changes to social and economic policy at Nedlac before it is introduced in Parliament (Nedlac, 1994).

The structure of Nedlac is distinct from its predecessors in that it has four constituencies (as opposed to three) being: labour, business, government and community organisations. All constituencies are represented on the Executive Council which includes a core of Ministers and Deputy Ministers representing government (Nedlac, 1994). Four negotiating Chambers report to the Executive. These are: the Trade and Industry Chamber, the Public Finance and Monetary Chamber, the Labour Market Chamber and the Development Chamber.

Nedlac held its first summit in the year following its the launch. While all constituencies recommitted themselves to transparent policy negotiation at the summit, only

a few weeks before the Minister of Labour had berated business and labour leaders for attempting to lobby government directly instead of using the channels set up under Nedlac (*Sunday Independent*, 26 May 1996). The summit itself revealed strains between the social partners and Nedlac's limited capacity in concluding agreements. There was contention over the relationship between Nedlac and Parliament, particularly with respect to the latter's ability to amend agreements concluded at the Nedlac. It was only the Labour Market Chamber which was able to report substantial progress to the summit, the conclusion of the Labour Relations Act being a key achievement (Naidoo, 1996).

The antagonistic response of labour to the macroeconomic strategy contained in the GEAR, together with government's subsequent reluctance to negotiate the document has dealt a further blow to Nedlac and more broadly to the prospects of open policy negotiation in South Africa.

Interest group capacity

Despite the recent formation of Business South Africa as a national umbrella body, the organisation of local business interests is highly fragmented and under resourced. The profile of business organisation is divided on sectoral, functional, language and racial lines (Nattrass, 1996). These roots of these divisions can be traced to the economy's industrial growth together with political developments.

Influential sector organisations such as the Chamber of Mines and Seifsa⁹ arose partially to address industrial needs and partially to respond to labour market issues, particularly after the emergence of a strong labour movement. Broader bodies such as Sacob, the AFI and Nafcoc,¹⁰ have emerged to provide commercial, marketing and lobbying services for their members. Despite having similar functions, these organisations draw membership from separate racial and language groups.¹¹ Other bodies such as the Brenthurst Group and the National Business Initiative serve more focused functions. The former facilitates direct communication between top business leaders and politicians and the latter provides research and forums for the discussion of pertinent economic and political issues.

Business South Africa (BSA) was supposed to present a common voice for business in negotiations at Nedlac and in other national forums. In the brief period of its existence, BSA has been subject to much internal wrangling. The most dramatic example of this was the withdrawal of Nafcoc from the umbrella body in 1995 following a disagreement on the allocation of seats to Nedlac. Nafcoc claimed that BSA was elitist and said that it was unable to articulate the needs of black business within BSA (*Business Day*, 20 February

⁹ The Steel and Engineering Industries Federation of South Africa.

¹⁰ The South African Chamber of Commerce, the Afrikaner Handelsinstituut and the National African Federated Chambers of Commerce.

¹¹ Nafcoc sees itself as the representative of black business while Sacob and the AFI draws most of their membership from white owned business. The AFI is dominated by Afrikaans speaking business, while Sacob membership is predominantly English speaking.

1995). Dissension was also evident in BSA's participation in the negotiation of the Labour Relations Act. BSA's negotiation team was dominated by business leaders from the big industrial and mining corporations. The resultant act was denounced by small business representatives for its provisions facilitating industry level wage determination. Despite BSA's agreement to the final Act, Sacob and AHI have gone public in criticising it (Nattrass, 1996)

BSA's structure and its affiliates' behaviour during the LRA negotiation seem to uphold Olson's doubts about the stability of national federations. BSA's capacity to represent a business view point in a social accord negotiation covering issues of investment, wage and price restraint and industrial and social policies would be extremely limited. Firstly, the conflict of interest within BSA (between big employers and small employers, on racial and language grounds, between upstream and downstream industries and so on) would restrict representatives to the vaguest of mandates. BSA does not have the strength to trade the interests of its members off against each other. Secondly, BSA has no means to enforce agreements on its members. There are no meaningful penalties (negative selective incentives) which it could apply to members for breaking rank (ibid: 30).

Trade union organisation in South Africa faces very similar difficulties to those identified for business: labour is represented by three major federations;¹² the majority of workers are not union members;¹³ and, union structures suffer from debilitating capacity constraints in their participation at Nedlac and elsewhere.¹⁴

Relations within Cosatu are very different to those in evidence in countries such as Finland and Austria which pioneered corporatist participation. Despite the coherent public image which Cosatu has been able to project, the federation has a very decentralised structure. The independence of affiliates is entrenched in the constitution, and guarded jealously in practice - 'attempts by the federation to intervene in, and attempt to resolve,

¹² Cosatu with 43% of total union membership is the biggest federation, followed by the National Council of Trade Unions with 11% and the Federation of SA Labour Unions, which organises white collar workers with 8%. The remaining 38% of union members belong to smaller federations and unaffiliated unions (Baskin, 1996: 24). There have been repeated unity discussions between Cosatu and the other federations (Fedsal and Nactu) but there has been little to show for it so far.

¹³ Over 40% of all workers with jobs are members of trade unions in South Africa (ibid: 25). While this represents the highest unionisation rate of any developing country, it is far behind corporatist countries such as Norway and Germany (Naledi, 1994). Union density varies widely by sector - the clothing, textiles and auto industries have unionisation levels of over 90%, as opposed to farm and domestic labour where percentage unionisation can be measured in single figures (Baskin, 1996).

¹⁴ Baskin comments that "business is [well] resourced, while most labour representatives have unions to run in addition to Nedlac responsibilities. Union absenteeism from key meetings is common, and representatives are rarely adequately prepared for debate" (ibid: 32). Given the continual "brain drain" from the labour movement into government, and the inability of unions to attract skilled staff, these problems are likely to continue (ibid: 35).

internal union disputes have invariably been rebuffed' (Baskin, 1993: 27). Cosatu Head Office has shown reluctance to intervene even in cases where affiliates have seriously undermined the decisions of the federation's executive. For example, in mid 1996, Cosatu's affiliate in the financial sector, Sasbo¹⁵ objected publicly to the federation's campaign against banks which had unilaterally increased interest rates.

Cosatu affiliates tend to be financially self-sufficient. In the absence of foreign funding most would be able to support themselves on income from membership subscriptions (Naledi, 1994). The same can not be said of the federation. In 1992, only 35% of Cosatu's budget was covered by affiliate subscriptions (Finnemore & Van Der Merwe, 1992). The federation is aiming for self-sufficiency but it is unlikely that this will be attained in the near future. In Scandinavian countries, federations derive their power over affiliates not only through their privileged access to government and policy determination, but also from their financial muscle derived from the central control of strike funds (Baskin, 1993). The above characteristics of Cosatu seem to corroborate Olson's sceptical view about the stability of federations further.

Given the structures and organisational conditions described above, the tools picked up from the theoretic sections of this paper are now applied to a discussion of selected examples of interest group interaction.

Discussion

Community representation

Nedlac differs from its predecessors in that community representatives participate in its Development Chamber and Executive. As mentioned earlier, this probably came as a consequence of the call by writers such as Schreiner for the democratisation of corporatist institutions. What needs to be answered, with the assistance of corporatist theory and public choice, is whether the inclusion of community representation will make Nedlac more democratic.

Other participants in Nedlac such as labour and business are there because the state needs their co-operation to implement policy. These parties have power which is prior to their involvement. Their ability to frustrate government policy is what makes their participation necessary.

Public choice argues that, without selective incentives, interest groups will not be able to form organisations because of the free rider problem. Earlier discussion also identified other factors which would prevent the emergence of such organisations. In this vein, Friedman and Reitzes have criticised the inclusion of the community constituency in Nedlac on two counts:

The first is that it is by definition implausible that any organisation represents those unable to organise. Second, it seems based on the fallacy that those who are not included in state-engineered institutions are necessarily denied a say (1996: 65).

¹⁵ The South African Society of Banking Officials.

As stated earlier, the existence of corporatist arrangements does not prevent marginalised interest groups from using of the ballot box, pluralist type lobbying or simply mass action as channels through which to pursue their demands.

The danger of including community representatives in Nedlac is that it 'may prevent the representation of the really marginalised by assuming that their interests are already represented by those selected to join the council' (*ibid*: 67). The best means of ensuring the democratisation of society as a whole, Friedman and Reitzes conclude, lies 'not in the establishment of networks of forums, but in parliamentary and electoral reform' (*ibid*: 63).

Trade policy

The successful negotiation of South Africa's submission to the General Agreement on Tariffs and Trade (GATT) is regarded as the central achievement of the NEF (*Business Day*, 20 February 1996). The process and outcomes of this negotiation are examined here in detail, particularly with respect to labour's participation, in order to understand the dynamics which were at work in policy bargaining at the NEF.

In 1993, the NEF took responsibility for formulating a new tariff schedule to comply with the Uruguay round of GATT (Hirsch, 1993). This exercise was guided by the need to: simply the application and administration of the schedule, encourage production in more value added sectors and to secure the access of producers to world priced inputs. Special arrangements were made for sensitive sectors, including auto, clothing and textiles. The schedule was submitted to GATT at the end of 1993.

From the outset, the participation of organised labour in the GATT negotiation seemed to be informed by an understanding of the inevitable need for trade reform, despite the possible short-term consequences for employment in declining industries (Patel, 1994). Cosatu negotiators were involved in all steps of the process both in the NEF and through the task groups which considered the clothing and textile and auto sectors. In addition, individual unions had the opportunity to comment on the schedule before it was submitted.

There were tensions between unions and government in the implementation of the tariff phase down for sensitive sectors.¹⁶ Despite this, Cosatu's public statements against

¹⁶ The Minister of Trade and Industry rejected the findings of Swart report, a document drawn up by a tripartite restructuring forum in the clothing and textile industry, which recommended tariff reductions over 10 years and a publicly funded R4,5 billion restructuring package (*Financial Mail*, 2 September 1994). In the auto sector an immediate reduction in import duties on passenger cars from 115% to 80% was announced while the industry was on strike. The *Sunday Tribune* reported that "the move has been seen as a direct government intervention in the strike, designed to bring the union to heel" (4 May 1994: 1). Cosatu general secretary, Sam Shilowa "condemned Trade and Industry Minister Trevor Manuel's move to slash [these] tariffs, calling it ill-timed and unilateral" (*Business Day*, 6 June 1994: 1).

The rejection of the Swart report was subsequently justified on the basis that "government did not have the funds to back its proposals" (*Financial Mail*, 26 October 1994: 77). In the case of the tariff reduction in the auto sector, Manuel submitted that the changes had been recommended by the Motor Industry Task Group (a body on which labour is represented) before the election -

trade liberalisation belie the extent of the federation's participation in formulating South Africa's GATT offer. A declaration tabled at the 1994 Cosatu congress stated that the federation would 'resist vigorously any tariff reform which is not preceded by negotiation with unions' (*South African Labour Bulletin*, 18.5: 42). By this point, the entire tariff schedule had already been negotiated with the labour representatives. Cosatu's General Secretary was later quoted as saying that 'Cosatu will oppose the reduction of tariffs if it led to widespread job losses' (*Business Day*, 8 November 1994: 3). The Nedlac Labour Caucus' Social Equity document takes a similar line: 'We are opposed to trade related policies which destroy local jobs' (1996: 14).

The combination of weak national structures and well organised affiliates presents a dilemma for organised labour. High clothing tariffs might well protect workers in the clothing industry, but they also decrease the purchasing power of wages across the economy and lead to all the net welfare losses listed in footnote 8. This type of contradiction might well put limits on the issues which Nedlac can address. As Baskin points out:

So long as the easier issues are dealt with - such as a public works programme - consensus can be reached. But when issues are raised which affect various industries differently, other dynamics are likely. (1993: 29)

Nattrass has made similar comments with respect to business organisation (1996). Without fundamental improvements in the coherence of business and labour federations, national policy forums will be debilitated where industry interests conflict with national interests. Moreover, industrial unions and employer organisations may well join forces to protect their common interests, leaving national structures behind.¹⁷ In public choice terms, this translates into the collapse of encompassing organisation and the ascendancy of redistributional coalitions across constituencies.

Labour policy

There has been an unprecedented amount of labour market discussion and policy development in South Africa over the past year. Legislation and policy documents produced include the LRA, the Employment Standards Bill and the Employment Equity green paper. Other commentary has come from the LMC, the International Labour Organisation and Nedlac. Even the GEAR document includes important prescriptions for the labour market.

It is not the intention to provide a detailed review of this thinking here. Rather, in terms of the discussion above on reciprocity and encompassing behaviour, the focus is on the possible contribution the union movement could bring to an accord covering the labour market. Contributions which can be identified in the literature include - wage restraint,

the fact that the amendment, having been processed through government, happened to be announced during a strike was purely due to chance (*Business Day*, 5 August 1994: 1).

¹⁷ Baskin believes that "the tendency to such an approach is already visible in those industries whose unions and employers have embarked on restructuring talks" (1993: 29).

flexibility (in terms of flexible work arrangements), the tightening up of extension provisions in the LRA and the exchange of the private social wage for a public social wage (Nattrass & Seekings, 1996; LMC, 1996; Joffe & Lloyd, 1996).

Despite a general acceptance that at least some trade off exists between wages and employment (Gelb & Webster, 1996), labour has consistently refused to consider wage restraint as part of an accord. In 1994 the federation expressed the view that the issue of wage restraint could only be addressed after the quality of life for large numbers of working people had been significantly raised through social welfare programmes (Coleman, 1994). Two years on, the position remains unchanged: the Nedlac Labour Caucus describes the wage / employment trade off as described as a 'ploy, pursued ruthlessly by sections of business, to blame workers for unemployment' (1996: 9). Cosatu's response to the GEAR document contains a more direct riposte to the idea of a national agreement on wage restraint:

Labour believes that the debate around [the Social Accord] is both premature and distracts from the discussion of the real issues. By its nature a social partnership implies sacrifices by all stakeholders in the hope of the greater good. Sacrifice by South African labour, with its history, has an unrealistic ring about it. (NIEP/Cosatu, 1996: 9).

Reciprocal or encompassing behaviour, at least of the sort expected by government¹⁸ is clearly not on the cards. Whether Cosatu is willing to negotiate around the other contributions (flexibility, social wage, extensions) remains to be seen.

Section 4. Conclusion

The theoretical sections of this paper have tried to show that neither corporatist nor public choice theory is able to provide a complete explanation of interest group behaviour. Despite their respective theoretical and empirical weaknesses, concepts developed from these theories can be useful in generating plausible explanations of the internal and external dynamics of interest groups. In their application to South African examples, these concepts have assisted in exposing the complexities and structural problems apparent in the organisation of community, labour and business interests.

It should be clear from the discussion of the South African experience that the social accord proposed by GEAR and the LMC is a non starter. Even if it was a desired course of

¹⁸ In his speech to the 1996 Nedlac Summit, Labour Minister Tito Mboweni protested that "Government is specifically called upon to engage on its agenda with the partners [in Nedlac]. But the other components of Nedlac are not obligated to the table anything..." (1986: 5). The Labour Market commission is more explicit: "The Commission argues that the better strategy [than austerity measures] is for government to work with the social partners to moderate inflation via direct negotiations. Wages and prices are on the agenda for obvious reasons" (1996: 229).

action, which for Cosatu (and probably BSA) is clearly not the case, neither labour nor business have anything near the capacity necessary to bind membership to an accord.

There are other conditions which have not been discussed in this paper which are of importance to understanding interest group dynamics in South Africa. The first is the fact that the local political environment is highly centralised. The possibility of the ANC will facing a significant political challenge from any quarter in the medium term is very slim. The ruling party does not need corporatist arrangements to advance its programme. The fact that Cosatu is in an alliance with the ANC gives the federation a degree of influence over policy without having to engage in the messy business of corporatist bargaining. In this vein, Cosatu has recently called for a bipartite accord between the itself and the ANC (1996). Similarly, the alliance gives the ANC a means of controlling labour which is not open to public scrutiny.

If a normative goal of political reform is to make policy formulation more transparent and to broaden the participation of stakeholders in the process, there are less 'grandiose efforts' than a social accord which can be proposed (Schmitter, 1985: 37). Attempts to improve the capacity of labour and business organisations in Nedlac would be an example of this. Plans are already in place to provide Nedlac representatives with training and resources which should improve their effectiveness in the Council (Baskin, 1996). Recent initiatives by the Nedlac secretariate, such as the Workplace Challenge programme to promote the shopfloor discussion of productivity issues, have given a much wider constituency the chance to participate in the Council's work (Nedlac, 1996). Other initiatives at regional and sectoral level have similar potential (Nattrass, 1996).

Increasing the political influence of interests which have difficulty organising would require a broader re-examination of South Africa's political system. Specifically, as Friedman and Reitzes suggest, improving the accountability of politicians through the introduction of constituency based election would do far more for marginalised communities than reserving seats for them in corporatist institutions (1996).

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