Inequality in South Africa: Nature, causes and responses

DfID Policy Initiative on Addressing Inequality in Middle-income Countries

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Section 1. Introduction[1]

Speaking in South Africa's parliament in 1998 in the debate on the report of the Truth and Reconciliation Commission, (then-Deputy) President Thabo Mbeki argued that

> "material conditions …have divided our country into two nations, the one black, the other white. …[the latter] is relatively prosperous and has ready access to a developed economic, physical, educational, communication and other infrastructure…The second, and larger, nation of South Africa is black and poor, [and] lives under conditions of a grossly underdeveloped infrastructure…
>
> Neither are we becoming one nation. ….Unlike the German people [after unification in 1990] we have not made the extra effort to generate the material resources we have to invest to change the condition of the black poor more rapidly than is possible if we depend solely on severely limited public funds, whose volume is governed by the need to maintain certain macroeconomic balances and the impact of a growing economy." (Mbeki, 1998)

This paper examines the nature of the divide which Mbeki pointed to between the 'two nations' and the reasons for the limited response to this divide during the post-apartheid era since 1994 at which he hints. This paper argues that this response can be understood only through an historical analysis of the transition to democracy. Section 2 provides an overview of inequality, poverty and economic growth in South Africa and their trends during the past ten years.

Section 3 briefly examines the historical roots of inequality in colonial conquest and patterns of capitalist development resulting in the apartheid system. Section 4 argues that the democratic transition in 1994 emerged from a two-decade 'crisis' during which

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economic and social changes occurred which shaped both the form of the transition through negotiations as well as post-apartheid policy and institutions, which resulted from an accommodation between the ANC and business.

Section 5 spells out how policies, institutions and ideas in post-apartheid South Africa reflect the outcome of the transition and have shaped the trends described in Section 2. Section 6 concludes by examining current approaches to addressing inequality in South Africa, and the constraints upon them.

Section 2. An overview of inequality, poverty and growth in SA

This section examines the state of inequality and poverty in SA today, describes how inequality has changed over the decade since the democratic transition in 1994, and examines the composition of inequality and poverty based on a number of horizontal indices including race, gender, region (province) and urban-rural location. The historical origins of the situation described here are spelled out in the following section. The section also presents a range of indicators of economic growth and changes in economic structure, including output and employment.

(i) Basic indicators.

Table 1 presents basic demographic data for 1991 and 2001.[2] The population growth rate from 1991 to 2001 was 2.3% *per annum.*

Table 1: South Africa's population

	1991	2001
Total population (millions)	36.2	44.5
Population groups as % of total:		
African	70	79
White	16.5	9.5
Coloured	10.5	9
Indian	3	2.5

Source: Stats SA (2002c), p1.1; (2003a), p10.

Table 2 presents development statistics for South Africa relating to the Millennium Development Goals for various years in the early 1990s and early 2000s, the year indicated by the superscript. GDP grew at about 1.7% per annum between 1990 and 2001, less than the population growth rate, so that GDP per capita declined slightly during this period. The Human Development Index remained constant between 1996 and 2000, while South Africa's rank in the UNDP's dropped from 61st (of 140 countries) to 111th (of 175 countries). Life expectancy has declined precipitously while infant

[2] The apartheid racial categories are necessarily used throughout this paper, but this should not be taken to constitute endorsement of the categories.

mortality has increased substantially, both a consequence of the HIV/Aids pandemic. It is estimated that 11.4% of South Africa's population was HIV-positive in 2002 (HSRC, 2003, p46). The drop in the primary enrolment rate may also be linked to HIV/Aids and the increase in the number of Aids orphans in the country, estimated to be 660 000 in 2001 (World Bank, 2003b). The HIV/Aids pandemic is the major factor which has moved South Africa backwards since 1990 in terms of Millennium Development Goals 2, 4, 5 and 6, those concerned with health and education.

Three million people, 7% of the population, were living on less than $1 a day in 2000, and ten million people, 23% of the population, on less than $2 a day (World Bank, cited in Woolard, 2002). Bhorat (2003a) estimates that in 1999, 32% of households in South Africa were below a poverty line of US$251 per month per household (1995 prices), equivalent to US$81 per month per individual. Using the same poverty line, the poverty gap[3] was 13%.

Table 2: South Africa: Millennium Development Goals, early 1990s and post 2000

	Early 1990s	Post-2000
a. GDP per capita 1995, ZAR	14806 [90]	14554 [02]
b. GDP per capita 1995, US$	4082 [90]	4013 [02]
c. GDP per capita, current PPP US$	8282 [90]	9401 [00]
d. Human Development Index	0.69 [96]	0.695 [00]
e. Life expectancy at birth (years)	62 [90]	47.1 [01]
f. Under 5 mortality rate (per 1000 live births)	73 [90]	85 [02]
g. Maternal mortality rate (per 100 000 live births)[4]	150 [92-98]	n.a.
h. Adult Literacy rate (% of people 15 & over)	81.2 [90]	86.0 [02]
i. Net primary enrolment rate (% of age group)	103 [91]	89 [01]
j. Urbanisation (% of population)	53.7 [96]	56.1 [00]

Sources: a, b: SA Reserve Bank, www.sarb.co.za; c, e, f, h, i: World Development Indicators; d. Stats SA (2001), p9; g. SA Dept. of Health (1998), p118; j. DBSA (2000), p5. The superscript indicates the year to which the data applies.

[3] The difference between the average income of poor people and the poverty line, as a proportion of the poverty line.

[4] This is a conservative estimate, but is considerably higher than for developed countries. Maternal deaths are responsible for 5% of deaths of women of child-bearing age (8% for 15-19 yr olds and 11% for 20-24 yr olds).

(ii) Inequality and Poverty.

Table 3 shows that the Gini coefficient for South Africa declined markedly during the 1990s, indicating an improvement in the overall distribution. This is borne out by the significant shift in the distribution amongst quintiles away from the top quintile to the middle 40% in particular, though the bottom 40% of the distribution have also gained slightly relative to their position in 1991. Overall income distribution had deteriorated significantly between 1975 and 1991 for the bottom 40%, who lost one-quarter of their share of income in that period, but they have more than regained this during the 1990s.[5] In 1995, households in the top quintile had incomes which were more than 7.63 times the incomes of households in the lowest quintile, but by 2000, the ratio had dropped to 5.78 (Stats SA, 2002a).

Table 3: Indicators of household inequality: Total population.

<table>
<tr><td></td><td>1975</td><td>1991</td><td colspan="2">1995</td><td colspan="2">2000</td></tr>
<tr><td>Gini coefficient, all households</td><td>0.68</td><td>0.67</td><td colspan="2">0.56</td><td colspan="2">0.57</td></tr>
<tr><td>Percent of total income going to:
Top decile</td><td>49.2</td><td>51.2</td><td colspan="2">46.8</td><td colspan="2">45.2</td></tr>
<tr><td>Bottom decile</td><td>n.a</td><td>n.a.</td><td colspan="2">0.5</td><td colspan="2">0.4</td></tr>
<tr><td>Percent of total income going to:
Top quintile</td><td>70.9</td><td>70.5</td><td colspan="2">65</td><td colspan="2">64.9</td></tr>
<tr><td>2nd Top quintile</td><td rowspan="2">23.9</td><td rowspan="2">25.6</td><td>18.2</td><td rowspan="2">27.8</td><td>20.1</td><td rowspan="2">29.0</td></tr>
<tr><td>Middle quintile</td><td>9.6</td><td>8.9</td></tr>
<tr><td>2nd Bottom quintile</td><td rowspan="2">5.2</td><td rowspan="2">3.9</td><td>5.4</td><td rowspan="2">7.3</td><td>4.5</td><td rowspan="2">6.1</td></tr>
<tr><td>Bottom quintile</td><td>1.9</td><td>1.6</td></tr>
</table>

Sources: 1975 & 1991: McGrath & Whiteford (1994), pp13, 17; 1995 & 2000: Stats SA (2002a), p47.

Not surprisingly, race is a significant determinant of both poverty and inequality. Based on a household poverty line of US$220 per month in 1999, 52% of the African population was poor while 95% of poor people were African, though Africans were only 79% of the population as a whole (Woolard, 2002; Bhorat et al, 2000).

[5] The change in income share of the bottom two quintiles between 1991 and 1995 may be a statistical issue. According to Whiteford & van Seventer (1999, p13), using 1996 census data, the share of the poorest 40% in 1991 was 3.8% and in 1996, 3.4%, quite different from the figure of 7.3% reported by Stats SA based on the income and expenditure survey in 1995.

Bhorat et al. (2000) estimate that 40% of total inequality in 1995 was a consequence of between-race inequality across the four racial groups, a very substantial contribution by one factor.[6] The remaining 60% of total inequality is the result of within-race inequality, 33% due to inequality amongst Africans and 21% to inequality amongst Whites. Over the past three decades, inequality between races has declined significantly while inequality within racial groups (except Indians) has risen, as shown in Tables 4 and 5. Between the first estimates in 1917 of racial shares of income and 1970, the white share remained constant at 70% and the African share 20%. But by 1995, the white share had dropped to about 52% and the African share risen to 34% (Simkins, 1998). On a *per capita* basis, the ratio of white to African incomes was down from about 13:1 to around 9:1.

Gini coefficients by race group are presented in Table 4. The significant impact of between-race inequality means that the coefficients are lower than those for the population as a whole. Distribution both amongst Whites and amongst Africans deteriorated markedly between 1975 and 1991, but the coefficient for Africans then improved significantly.

Table 4: Gini coefficient.

	1975	1991	1995	2000
African	0.47	0.62	0.50	0.49
White	0.36	0.46	0.44	0.45
Indian	0.51	0.52	0.43	0.41
Coloured	0.45	0.49	0.46	0.48
South Africa	0.68	0.67	0.56	0.57

Source: 1975 & 1991: McGrath & Whiteford (1994) p16-17; 1995 & 2000: Stats SA (2002a). p48.

Table 5 shows the significant deterioration of intra-race inequality after 1975 more clearly. The share of the bottom two quintiles amongst Africans dropped by about two-thirds, but that of the top decile rose by about two-thirds. Amongst whites also, the top decile gained about eight percentage points of income, about the same as the bottom two quintiles loss. The lower half of the table shows that Africans substantially increased

[6] Decomposing inequality into a range of independent 'causal' factors, Bhorat et al. (2000) estimated that race accounted for 17% in 1995, with only education accounting for a larger share.

their presence amongst South Africa's rich during the two decades from 1975, while whites became much less dominant. Van der Berg (2002a) calculates that the top decile in the African population had per capita household expenditure of more than ZAR20000 in 1995, about twenty times the bottom decile's expenditure level, and about two-thirds of the average white level.

Inequality and poverty depend heavily on employment status. When household income is decomposed into different components, wages account for 66% of inequality across all households and 62% for poor households. Remittances and state transfers contribute 45% of income to poor households, but only account for 28% of inequality. Fifty-two percent of poor people were unemployed in 1995, compared with a (narrow) unemployment rate of 29%. Only 22% of people living in poor households were employed. Labour force participation by poor people is also low: though it comprises 61% of the total population, only about 44% of poor people were in the labour force (Bhorat et al, 2000, p16).

Table 5: Income distribution within racial groups

	1975	1991	1996
Percentage share of racial group's income			
Africans: bottom 40%	12.3	6.2	4.5
Africans: top 10%	32.5	47.8	51.3
Whites: bottom 40%	18.0	10.9	10.1
Whites: top 10%	25.9	31.8	34.8
Racial composition of income deciles in total population			
African % in top decile	2	9	22
White % in top decile	95	83	65
African % in 2nd top decile	7	22	39
White % in 2nd top decile	83	61	42

Source: Whiteford & van Seventer (1999), p14.

As these figures suggest, the South African labour market is highly segmented. Four categories can be distinguished within the working age population, as shown in Table 6. Nearly a third of the working age population is not economically active, and less than 40% is in employment. Of those employed in 2003, only 63.6% were in the formal non-agricultural sector, with 7.5% in formal (commercial) agriculture, and 28.3% in the

informal sector (unregistered businesses) and domestic service. In 2003, the 'narrow' unemployment rate in South Africa was 31.2%, defined as the proportion of economically active people who had actively sought work during the previous four weeks. On the 'broad' definition – those who want to work but have become discouraged from actively looking – unemployment was 42.1%. Unemployment rates differed markedly amongst racial groups, 47.8% of Africans being unemployed on the broad definition compared with only 9.9% of whites (Statistics SA, 2002c).[7]

Table 6: South Africa, working age population, 2003

	Number in '000	% of working age popn	% of eco active popn
Total population age 15-65 years (millions)	29555	100	n.a.
Employed in formal sector	8223	27.8	41.3
Employed in informal sector & domestic service	3270	11.1	16.4
Unemployed (narrow definition)	5250	17.8	31.2
Unemployed (broad definition)	8421	28.5	42.1
Total economically active (broad)	19914	67.6	100
Not economically active (broad)	9569	32.4	n.a.

Source: Stats SA (2003b).

Consistent and reliable estimates of changes in the unemployment rate over time do not exist. But unemployment is a long-term, even permanent, status for many South Africans. As discussed below, the historical pattern of industrial development resulted in low labour absorption rates, and from the late 1960s, open unemployment began to increase.

There is a clear 'skills bias' amongst the employed. Table 7 shows the composition of different categories of the employed and unemployed, by highest education qualification achieved. Within the formally employed workforce, 57.7% have at least school-leaving education, as compared with only 38% in the total working-age population. The formally employed workforce has a share about 2.5 times higher of those with post-secondary

[7] The number of unemployed and the unemployment rate are notoriously difficult to measure in developing countries. In South Africa, the impact of constitutional changes on the definitions of statistics and their collection have compounded the difficulties over the past decade.

education: 21.8%, as against 8.3% in the total working-age population. But within the unemployed, there is also a larger share of those with school-leaving education than in the population as a whole: 37.2% vs 29.7%. The possible emergence of a problem of 'educated unemployed' was confirmed by an assessment of the characteristics of the unemployed in the mid-1990s, which found that only 15% had both education and past work experience, while 36% were young with no employment experience. By contrast, 28% were poorly educated rural residents and 18% poorly educated urban residents (Klasen & Woolard, 1997, cited in May, 2000, p82). As one would expect, employment in the informal sector and in domestic service is dominated by lower education categories, as are those no longer economically active, outside the labour force proper.

Table 7: Shares of educational category within employment status

ALL Groups	Up to Gr 4	Gr 5-10	School-leaving	Post-sec	TOTAL
Working age pop	14.1	47.9	29.7	8.3	100.0
Empt total	13.9	38.7	31.0	16.4	100.0
Consisting of:					
Empt formal	9.0	33.2	35.9	21.8	100.0
Empt informal	24.3	50.4	21.7	3.6	100.0
Empt domestic	30.7	58.5	10.8	0.0	100.0
Unemployed (broad)	12.3	46.7	37.2	3.8	100.0
Not eco active (broad)	15.8	60.1	21.6	2.5	100.0

Source: Calculated from Stats SA (2003b).

Table 8 looks at the composition of each of the four education categories, in terms of employment status. Amongst the working age population with some post-secondary education, nearly three-quarters (73.6%) are employed in the formal sector, and the unemployment rate in this category is only 14.6%, much lower than the overall unemployment rate though still high in international comparative terms. Amongst those who have completed high school or its equivalent, the employment rate is about the same as in the full population, but a much larger share of those employed are in the informal sector than is the case for people with post-secondary training. This underlines the issue of educated unemployed. A larger proportion of this group remains in the

labour force than for those with fewer years education (35.7% vs 27.8%), though the broad unemployment *rates* are the same. Interestingly, those with at most Grade 4 education have a higher employment rate and a lower *un*employment rate than those with a few additional years education, but a majority of those employed amongst the least-educated are in the informal and domestic service sectors.

Table 8: Shares of population within educational category

ALL	=< Gr 4	Gr 5-10	School-leaving	Post-sec	TOTAL
Working age pop	100	100	100	100	100
Empt total	38.6	31.5	40.7	77.3	39.0
Consisting of:					
Empt formal	17.8	19.2	33.6	73.2	27.8
Empt informal	13.1	8.0	5.6	3.3	7.6
Empt domestic	7.4	4.1	1.2	0.0	3.4
Not eco active (broad)	36.4	40.7	23.6	9.6	32.4
Broad unempt (share of pop)	25.0	27.8	35.7	13.2	28.6
Broad unempt rate (share of EAP)	39.3	46.9	46.8	14.6	42.3

Source: Calculated from Stats SA (2003b).

Turning next to gender, the disastrous legacy of South Africa's migrant labour system – with men going to work in the cities and mines, leaving women and children in the rural areas – remains sharply evident in the data.[8] The poverty rate amongst female-headed households in 1995 was 60%, double that for male-headed households, and was linked to the concentration of female-headed households in rural areas and their fewer working age adults. Unemployment amongst women is higher – the national broad unemployment rate for women was 46.4% in 2001 compared with 35.3% for men, while in rural areas 53.6% of women were unemployed versus 42.2% of men (Statistics SA, 2002c).

[8] Although this overview focusses on South Africa, it is worth noting that the country's migrant labour system stretches well beyond its borders into the entire Southern African region. In 1906, South Africa only provided 23% of its 81 000 mineworkers, and in 1973 the share had dropped to 20% of 422000 workers. By 1986, South African made up 60% of 536000 workers. Lesotho and Mozambique were historically the biggest regional sources of labour.

Table 9: Gender in the labour force

	1995	1999
Women employees as a percentage of men employees, by occupational group		
Legislators, senior officials and managers	22	25
Professionals	40	46
Technicians and associate professionals	54	53
Clerks	64	65
Service workers, shop and market sales workers	41	44
Craft & related trades workers	12	15
Plant & machine operators and assemblers	15	15
Elementary occupations	46	54
Total	39	42
Wages		
Women's hourly wage	9.35	9.97
Men's hourly wage	12.01	15.19
Women's hourly wage as % of men's	77.9	65.6

Source: Stats SA (2002b), p83 & 147

Women's participation in the labour force is much lower than that for men. In 1995, only 17% of African females were in wage employment, compared with 43% of African men. Forty-five percent of white women were in the labour force, compared with 63% of white men. Nine percent of African women were self-employed, but only 4% of African men and 7% of white women (though 15% of white men were self-employed, this has a different connotation than for other groups) (Bhorat et al, 2000, p20). However, Table 9 shows that between 1995 and 1999, women increased their share of employment overall and in six of the eight occupational categories. It would appear that employment security for women is somewhat greater than for men, but this may be due in part to the wage gap, which Table 9 shows deteriorated significantly over the same period.

There are also significant disparities between urban and rural areas with regard to inequality and poverty. In rural areas, 62% of the population is poor, compared with 13% in metropolitan areas and 25% in secondary cities. Disparities are found also amongst South Africa's nine provinces defined in 1994 to replace the apartheid sub-national arrangement of nine black 'bantustans' and four 'white' provinces. Of the nine provinces, only three – Western Cape, Gauteng and Northern Cape – did not have former

'bantustan' areas incorporated within their territory. The Northern Cape has a significant share of rural 'coloured' people whose living conditions were similar to those of the bantustans, though there was no official jurisdiction. The Free State province includes areas which were formerly predominantly within white South Africa.

Table 10: Provincial* characteristics

	EC	FS	Gau	KZN	Lim	Mpu	NW	NC	WC	SA
% of population, 2000	15	6	18	21	12	7	8	2	10	100
GGP per capita, 1998 ZAR '000	6.3	11.6	26.3	9.2	3.7	14.6	8.5	12.1	18.4	12.6
Urbanisation (% pop), 2000	43	69	98	45	12	42	36	77	91	56
Literacy, 1996	73	85	94	85	74	76	70	81	95	82
Infant mortality (per 1000 live births), 1996	55	45	35	44	54	40	42	31	25	41
Broad unemployment, 2002	39	41	36	47	55	42	46	41	26	41
Poverty rates[9] (% pop), 1996	74	54	32	63	78	64	61	58	29	57
Percent of households with access to essential services, 2001										
Direct water supply to house	45	71	84	57	46	63	82	59	85	66
Phone (landline/cell) in house	29	35	56	39	28	38	42	35	63	42
Sanitation (flush/septic tank)	33	46	82	42	16	38	66	35	86	52
Weekly refuse removal	36	59	84	49	14	39	69	37	88	55
Electricity for lighting	50	74	81	61	64	68	76	70	88	70
Electricity for cooking	28	47	73	48	25	40	59	45	79	51
Electricity for heating	23	40	70	47	27	39	54	45	73	49

Source: Rows 1-4: DBSA (2000); Row 5: Stats SA (2002c); Row 6: Whiteford & van Seventer (1999), p32; Row 7-13: Stats SA (2003a).

* The provinces are Eastern Cape, Free State, Gauteng, KwaZulu Natal, Limpopo, Mpumalanga, North West, Northern Cape and Western Cape.

As can be seen from Table 10, the Western Cape and Gauteng, centred on Cape Town and Johannesburg respectively, are much better off than the provinces which include former bantustan areas. These two provinces are almost fully urbanised, and have much

[9] Based on BMR Minimum Living Level of R950 per month per household of four (1996), equivalent to approximately $1.80 per day per adult.

lower unemployment and poverty rates than the other provinces. These two provinces also have a far higher percentage of households with access to services than the other provinces. The poorest provinces in terms of both the prevalence of poverty and access to services are the Eastern Cape and the Limpopo province, both of which are dominated by former bantustans in terms of land area and population composition.

Table 11: Prevalence of HIV for people 15 & older, 2002

	Total	African	White	Coloured	Indian
By measure of disposable income					
Not enough money for basics	13.9	14.5	6.2	7.6	1.9
Enough for basics, short for others	14.0	16.1	6.4	4.4	3.7
Enough for most important things	6.5	9.4	3.7	7.8	0.5
Some money for extras	5.0	10.3	4.6	2.7	0.0
By education					
No School	8.3	8.7	0.0	5.2	0.0
Primary School	12.1	12.6	10.7	8.3	1.2
High School	14.9	17.2	7.7	5.1	0.8
Matric	15.3	21.1	4.4	6.4	3.0
Tertiary Education	6.5	10.2	3.6	2.7	0.3
No School	8.3	8.7	0.0	5.2	0.0

Source: HSRC (2003)

Table 11 presents data on HIV prevalence in South Africa.[10] As indicated above, the survey found that the overall prevalence rate in the population (older than two years) was 11.4%. Amongst Africans, the figure was 12.9%, amongst whites 6.2%, coloureds 6.1%, while for Indians it was very low at only 1.6%. women and girls are more vulnerable than men/boys, the female prevalence rate being 12.8%, compared with 9.5% for males. The data suggest that all socio-economic groups are at risk, not just poor people, though they face a higher risk. Amongst Africans, the data show no clear trend even after further statistical analysis, and better-off people have the same levels of risk as those who are poor. The lower half of the table shows that the risk of infection increased amongst people with higher levels of schooling, though tertiary education appears to lower the risk. This reinforces the impression that HIV/Aids is not simply a

[10] The table is drawn from the first household survey in South Africa which involved testing respondents for HIV status, carried out in 2002. The survey did not include detailed measurement of income levels amongst the respondents, only a proxy measuring adequacy of household income for necessary expenditures.

'poor peoples' disease' since poverty and educational attainment are closely correlated. However, the *impact* of the disease clearly varies considerably with socio-economic status, since poor people are far less able to cope with the loss of earnings, the increased medical costs, the potential disruption to children's (especially girls') schooling due to increased domestic responsibilities and other consequences in the household.

(iii) Redistribution.

In a series of valuable papers, Servaas van der Berg and collaborators (2001a & b, 2002; van der Berg & Burger, 2002; van der Berg & Bredenkamp, 2002) have shown that the fiscus, and its expenditure side in particular, has been used very effectively as an instrument of redistribution in South Africa since 1994, continuing a pattern established from the mid-1970s. Up until then, whites were the primary beneficiaries of public expenditure, receiving well over 50% of all social spending – health, education, welfare, as well as housing, water and sanitation and, after 1994, land reform – while black social expenditure per capita had remained constant at about 12% of the white level. From the late 1970s, expenditure on Africans began to rise, first in response to increasing political instability from 1976, which led to rising education spending. Between 1990 and 1993, expenditure on Africans accelerated sharply as the apartheid government desperately tried to buy black support during the constitutional negotiations for the forthcoming universal franchise election.[11]

Table 12: Social spending from fiscus

	1975	1990	1993	1997
African share of social spending	28	51	67	80
White share of social spending	55	33	17	9
Per capita level: African % of white	12	28	69	n.a.

Source: vd Berg (2001a, 2002)

Table 12 shows the dramatic changes in the racial allocations over this period. African per capita spending rose by 40% while spending on whites, Indians and Coloured

[11] These increases contributed to a rapid rise in the national government budget deficit during the period, from 3.2% of GDP in 1990 to 10.1% of GDP in 1993 (SA Reserve Bank).

people dropped by 17%, 21% and 10% respectively. By 1997, the racial spending allocations were roughly proportionate to population shares.

The impact of social spending on inequality is summarised by calculations of the Gini coefficient . When only earned income is taken into account, the coefficient for the population as a whole for 1995 is 0.68.[12] Taking taxes into account reduces this to 0.64, and taking transfers and other social spending into account, the Gini drops again to 0.44 (van der Berg, 2002). Between 1993 and 1997 overall per capita social spending (health, education and welfare, plus housing and water) increased by 23.8% in real terms. But there was significant redistribution across income and racial groups. The lowest income quintile experienced a per capita spending increase of 28%, and the next two quintiles 56% and 31% respectively, while the top quintile dropped by 20% (Van der Berg, 2001b).[13]

Table 13: Distribution of government budget. (Fiscal years, ending March 31)

Percentage share of budget	1990/1	1995/6	1998/9	2000/1	2002/3
Social services:					
Education	18	21	22	21	20
Health	9	10	11	11	11
Social security & welfare	6	10	12	12	14
Housing & other social services	13	5	3	2	4
Social services total	**46**	**46**	**48**	**47**	**49**
Protection services	20	17	16	17	17
Economic services	14	11	8	8	12
Interest	12	19	20	19	15
Other	8	7	8	9	7
Total	**100**	**100**	**100**	**100**	**100**

Source: National Treasury, National Expenditure Survey, various years

Table 13 shows that nearly half of all social spending goes to social services, the three percentage point increase since the beginning of the 1990s being re-allocated in effect

[12] This figure is higher than the Gini in Table 2 because social transfers received mainly by poor people such as pensions are excluded.
[13] Because of the distribution of pensions and social assistance, total spending on the lowest quintile is significantly higher than the higher income quintiles, so that the 3rd and 4th quintiles experienced increases from a lower base.

from protection services (defence, police, justice). Education receives the biggest single share, but the proportional increase in the allocation to social security has been greatest, while housing & other services, which include land reform, water and sanitation, have declined.

The social security system in South Africa, including social insurance and social assistance, is substantial in international terms, but still has gaps in coverage. Social insurance for retirement and unemployment is very closely tied to employment status, with three-quarters of formal sector employees covered making up just under half the labour force (45%). The substantial number employed in the informal sector, domestic service and agriculture are not covered. Social assistance schemes provide for those without insurance. A means-tested social pension (ZAR640 per month at the start of 2001, about US$90 at the time) was provided to more than three-quarters of the elderly, with more than three times as many women as men receiving this grant. This scheme is critical in providing some income to poor people - nearly a quarter of African households (23.7%) received a pension, and two-thirds of recipients are in rural households. As a result, poverty amongst the aged is actually lower than amongst children, whose families receive a child support grant of only ZAR140 per month per child.[14] The scope of the South African social assistance system is underlined by the fact that 2.1% of GDP was spent in 1999, well above the Western European average *for 1980* of 1.54%, when the UK's level was 1.75%. Nonetheless, many households are excluded from access, with those least assisted being female-headed households, discouraged workseekers and (until 2003) households with children between 7 and 14 years old.[15]

(iv) Economic growth and employment

Growth and employment are critical for welfare and poverty status. GDP growth between 1990 and 2002 averaged only 1.7% per annum. Since the population growth rate was 2.0%, per capita income dropped from 1990 to 2002 (Table 1). Between 1994 and 2002, GDP growth was 2.73%, so that on a per capita basis, growth was positive but low at 0.7% per annum.

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[14] Until age 6 up to the March 2003 Budget, when it was extended to age 14.
[15] This paragraph is based on van der Berg & Bredenkamp, 2002.

Between 1990 and 2002, there were significant shifts in the composition of output, shown in Table 14. The shares of both mining and manufacturing declined, as did 'other industry' (construction and utilities), while services increased, with transport and communications and financial services growing particularly strongly. Within manufacturing, there were also composition shifts. Labour-intensive sectors (food & beverages, textiles & clothing and footwear) grew slowly at around 0.2% per annum, and declining from 23% of manufacturing value-added (MVA) in 1990 to 20% in 2000. At the same time, basic metals, wood products and chemicals were the fastest-growing sectors, basic metals and wood growing by more than 4% per annum and increasing their shares of MVA, basic metals by over three percentage points to 16%, and wood by half a percentage point to 3.9% of the total (Kaplan, 2003).

The shift to more capital-intensive sectors was linked in part to international trade. The share of exports from capital-intensive sectors rose from 56.1% in 1993 to 60.8% in 1997, while import penetration in labour-intensive sectors rose from 55.5% to 67.5% in the same period, squeezing domestic production and employment (Edwards, 2001).

Table 14: Sectoral output shares, 1995 prices

	Share of Gross Value Added, percent			Growth rate, 1990-2002
	1990	1994	2002	
Agriculture	5.0	5.0	4.3	0.8
Mining	7.3	7.4	5.4	-0.5
Manufacturing	22.0	20.5	20.2	1.3
Other Industry	6.9	6.7	6.6	1.7
Transport & Communication	7.9	8.3	11.7	5.5
Financial services	15.6	16.3	19.6	4.0
Govt. & community services	16.0	16.5	13.5	0.6
Trade & other Services	19.4	19.3	18.8	1.8
Total	100.00	100.00	100.00	2.0

Source: SA Reserve Bank, Quarterly Bulletin, various issues

Table 15 shows the change in the sectoral composition of merchandise exports between 1990 and 2002, in particular the significant shift from minerals to basic processed goods and to machinery and equipment. This reflects in large measure the growth of domestic

beneficiation of natural resources to allow the export of materials rather than raw ores and resources. Basic processed goods includes chemicals and plastics, wood products and basic metals. Machinery and equipment shows the biggest increase in export share. This category includes vehicle components, exports of which have grown rapidly since the mid-1990s in the context of the Motor Industry Development Plan. The overwhelming bulk of component exports have been catalytic converters and leather car seats, constituting 48% (1994: 9.4%) and 13% respectively of motor exports in 2001. Both the converters (ceramic moulds imported until 2000 and platinum-coated in South Africa) and the seats are beneficiated natural resources rather than assembled products. Since 1999, the South African auto industry has also rapidly increased its exports of assembled vehicles, these rising from 25900 in that year to over 100000 by 2001, a level which has been maintained (Black, 2002). But critics of the programme argue that the sector has seen a limited rise in productivity growth and international competitiveness, with the export success due to the MIDP subsidy whose cost is ultimately borne by South African consumers (Kaplan, 2003).

Table 15: Percentage shares of merchandise exports, by sector

	1990	1995	2000	2002
Agriculture	4.5	4.9	4.1	5.5
Minerals	61.3	50.7	45.6	36.1
Food, beverages	3.0	3.1	4.0	4.3
Textiles and clothing	3.1	3.1	2.7	3.1
Basic processed goods	21.9	28.1	27.4	29.7
Machinery & equipment	5.9	8.5	14.7	19.3
Other manuf goods	0.1	1.6	1.5	2.0
Total	100	100	100	100

Source: TIPS (2003).

Lewis (2001, p46-7) argues that there is “some evidence to suggest that trade liberalisation and increased trade …have induced a structural change in production towards capital-intensive sectors… South Africa has a low and declining share of exports that use unskilled labour, and a high share using more skilled labour”. This is a counterintuitive outcome given the abundant supply of unemployed and unskilled labour, and underlines the high degree of segmentation in the labour market. The sectoral shifts in output growth and exports were reflected in employment changes on a sectoral basis,

as shown in Table 16. The last column of the table shows that employment grew by more than 10 percent overall between 1995 and 1999, a net increase of 970 000 jobs.[16] Labour force growth was however greater at 13.2% during the period, so that unemployment also rose. Employment grew rapidly in the two fast-growing sectors in output terms – financial services and transport and communications – but these sectors together employ only about 15% of the employed labour force. Construction, included in ‘other industry’ and ‘trade and other services’ also increased their employment shares, though the growth in the latter may have included a significant rise in the number of domestic workers being counted for the first time.

Table 16: Employment by sector

	Share of Employment %		Employment increase, % 1995 - 99
	1995	1999	
Agriculture	12.4	10.9	-3.3
Mining	6.2	4.5	-19.4
Manufacturing	14.9	14.4	6.7
Other Industry	5.4	6.2	25.2
Transport & Communication	4.9	5.2	15.8
Financial services	6.1	8.9	61.4
Govt. & community services	22.5	19.1	-6.7
Trade & other services	27.6	30.9	23.2
Total	100.00	100.00	
Number	9.557m	10.529m	10.2

Source: Calculated from OHS 1995 & 1999

The shifts in output and trade across sectors have contributed to a ‘skills twist’ in employment growth, as the occupational structure of employed labour shows in Table 17. In proportionate terms the major gainers are the managerial and professional categories, with the biggest decline in the elementary category.[17] Edwards (1999) shows that the main driver of the decline in employment in the relatively unskilled job categories has been labour-displacing technical change (see also Bhorat, 2003b). This structural change favours those with higher levels of education and entrenches

[16] More recent comparable data was not available.
[17] Skilled agriculture & domestic also gained substantially, but many of these are likely to be domestic workers.

inequality, given the links discussed earlier between inequality, poverty and employment status.

Finally, we look at wages. Table 19 shows that there was a significant shift from wages to profits in the overall income distribution during the 1990s, the share of profits in national income growing by nearly six percentage points, from 42.8% to 48.6%, with an equivalent fall on the wage side (employees' remuneration). While there is not a direct relationship with inequality, this provides a strong indication of distributional trends. On the other hand, even though the wage share declined, those who retained their employment in the formal sector gained on average, because real wage rates have risen rapidly in the economy as a whole since 1990, driven initially by increasing public sector wages, and from 1995, by the private sector even more strongly. Unfortunately, reliable sectoral data on wages was unavailable.

Table 17: Occupational distribution

	1995	1999
Managers	5.3	6.6
Professionals	3.4	5.3
Technicians	11.0	10.0
Clerks	12.0	10.2
Service & sales	11.2	11.8
Skilled agriculture & domestic workers	8.5	12.5
Craft	12.1	13.0
Machine operators	11.7	10.4
Elementary	23.4	18.3
Unspecified	1.4	1.8
Total	100	100

Source: Based on OHS 1995 & 1999 and Census 2001

Table 18: Employment indices by skill category and sector, 1985, 1995 & 2002 (1985 = 100)

Sectors	Semi-/Unskilled			Skilled			Highly Skilled		
	1985	1995	2002	1985	1995	2002	1985	1995	2002
Agriculture	100	91	77	100	121	130	100	197	284
Mining	100	78	52	100	96	77	100	145	127
Manufacture	100	90	76	100	104	97	100	145	145
Utilities	100	59	47	100	79	84	100	173	227
Construction	100	86	51	100	83	50	100	98	68
Trade	100	82	80	100	103	111	100	117	140
Transport/comms	100	62	43	100	66	51	100	117	120
Financial services	100	94	105	100	123	131	100	165	196
Govt & community	100	87	99	100	126	125	100	128	125

Source: TIPS, South African Standardised Industry Indicator Database

Table 19: Trends in wage share

	1985	1990	1995	2000	2002
As percent of GDP at factor cost:					
Wages (Employees' remuneration)	57.1	57.2	55.8	53.9	51.4
Profits (Gross operating surplus)	42.9	42.8	44.2	46.1	48.6
Trends in real wages (1995 prices):					
Private sector	102.3	100.9	100.0	118.9	123.4
Public sector	79.1	78.8	100.0	108.6	112.8
Whole economy	92.2	91.3	100.0	115.2	119.4

Growth rates of real wages (% p.a.)	1985-2002	1985-1995	1995-2002
Private	1.11	-0.23	3.05
Public	2.11	2.37	1.74
Total	1.53	0.82	2.57

Source: SA Reserve Bank, Quarterly Bulletins, various issues.

Section 3. The roots of inequality in South Africa

Inequality in South Africa is rooted in military conquest and political exclusion, which took a colonial and racial form, and was buttressed by continuing repression of political and social organisation. Conquest began with the establishment in the 1650s of a Dutch shipping outpost on the southern tip of Africa, which developed into the city of Cape Town. Over the next two centuries, there was gradual expansion into the interior by the Dutch and then the British (who took over in the early nineteenth century), and defeated indigenous groups were not fully incorporated into colonial and settler societies, retaining considerable economic autonomy. The drive for political control of the region accelerated sharply after mineral deposits were discovered – diamonds in 1867 and gold in 1887 – and demand for unskilled labour rose. By the start of the twentieth century, contemporary South Africa and most of the neighbouring countries had been brought under British imperial control. Conquest culminated in the defeat of the Boer settler republics in 1902. The peace settlement inscribed racial discrimination in the foundations of the new South African state constituted in 1910 from the British colonies of the Cape and Natal and the Boer republics of Transvaal and Orange Free State.

Conquest and political exclusion were the ‘initial conditions’ shaping black peoples’ unequal access to resources, their potential for asset accumulation, and the returns from their assets. Inequality was deepened by the pattern of economic growth and development after the mineral discoveries. The forced labour regime in mining established the migrant system and provided the foundation for racial discrimination in the labour market and in the workplace as the secondary and tertiary sectors developed. Mineral surpluses were increasingly channelled to domestic industrial growth (rather than remitted abroad) from the First World War after manufacturing import substitution was boosted by shipping restrictions. In the 1920s, manufacturing development was the focus of policy: tariff barriers were introduced, large-scale iron and steel and energy works were established by the state to supply the mines, and foreign multinationals entered, seeking consumer goods markets amongst the white population. Domestic output of labour-intensive consumer goods accelerated after 1933, when currency depreciation due to the international gold standard’s collapse, and shipping disruptions

during the Second World War, each provided effective trade barriers.

After 1945, growth was led by the expansion of capital-intensive production for the domestic market of both consumer durables (autos, electrodomestics) and heavy intermediate goods. In contrast to the east Asian economies where labour-intensive import-substitution followed by labour-intensive export-promotion contributed to higher employment rates and greater equality, South Africa (like other primary commodity exporters like Brazil and Argentina) opted for a domestic market focus on reaching the end of the first ('easy') phase of import substitution. This strategy was linked to building domestic political support amongst the urban middle class and skilled industrial workers, that is, the urban white population in the South African case. Raising white living standards implied a widening racial gap, exacerbated by increasing capital-intensity and limited labour absorption, raising black unemployment from the late 1960s.

South Africa's resource base and strong mining export performance financed imports of investment goods, making strong long-run growth possible in the 1950s and 1960s, though with an unequalising impact between races. The fixed gold price in the Bretton Woods international monetary system was important for export revenue stability, in contrast to most other commodity exporters. State-owned heavy industry was critical in providing cheap inputs – energy, steel, transport – to domestic firms (Fine & Rustomjee, 1996). Nonetheless, when import substitution exhausted itself by the start of the 1970s, the manufacturing sector had not become internationally competitive: labour productivity was low because of the apartheid labour and education systems, while low effective protection on machinery and assembled intermediates limited backward integration into these sectors. As a result, import dependence in manufacturing was high, and the cost structure inflexible (Kaplan, 1991). From the late 1960s, long-run manufacturing profitability began to falter, reflecting these supply-side problems. This was an important factor in the economic crisis and decline in long-run growth from the 1970s, which in turn was one of the impulses for the political transition to democracy (Gelb, 1991).

Before examining the 'crisis' and transition in more details, we look here at the manifestation of inequality in relation to land, labour and capital, the factors of production.

(i) Land.

The Natives Land Act of 1913 restricted land ownership for Africans to certain specified areas mostly in the north and east, initially about 8% of the country's land area but extended to about 13% in the 1936 Native Trust and Land Act. The balkanised 'reserves' thus demarcated by legislation laid the foundation for the 'bantustan' system, in which rights of political representation for Africans were attached to these areas. Many Africans continued to live in rural areas reserved for whites, as tenants and labourers on white farms but also on their own land. From the 1960s, the government stepped up forced removals, moving nearly half a million people, but the attempt to shift all Africans into the 'bantustans' did not succeed: "there never was a 'white man's country' in the sense [of] zones of numerically predominant white occupation, only in the sense that whites…exercised control." (Beinart, 1994, p14).

In 1994, South Africa's land distribution was "comparable in its inequality to...many Latin American countries [with] a similar history of European conquest and settlement. What sets South Africa apart…is the relative emptiness of much of its rural landscape….[R]ural villages, settlements, scattered farms and homesteads of farm labourers …are rare" (World Bank, 1994, p22). In the early 1990s, 67000 white farmers owned 85.8 million hectares amounting to 86% of agricultural land, supporting a population of 5.3 million people or 16.2 hectares per rural resident. White commercial agriculture – producing 90% of agricultural value-added – had developed on the basis of limited competition due to the restrictions on black land ownership, and was further assisted by substantial state support from the 1930s on, via marketing boards, subsidised credit and generous rural infrastructure and extension services. By contrast, 13.1 million Africans lived in the bantustans on 17.1 million hectares, less than one hectare per person. Though some black commercial farmers did emerge and survive, most farming was for subsistence, but was unable to meet needs – the bantustans were net food importers. The World Bank concluded that the bantustans "should be viewed

as labour reserves, *not even* as the subsistence sector of a highly dualistic agricultural system." (1994, p22; emphasis added)

In the urban areas, the Group Areas Act of 1950 restricted property ownership rights to specified areas for Africans, as well as for Coloureds and Indians. Together with the migrant labour system restricting Africans' movement into the urban areas, this contributed to severe housing shortages in the cities, and also prevented home ownership for Africans and limited collateral available for loans.

(ii) Labour.

Political conquest enabled the large unskilled labour supply needed in the gold mines, where a strictly segmented labour market was put in place. Black male workers – many from other parts of Southern Africa – were forced into short-term migrant labour contracts providing little employment security, and housed in repressive single-sex compounds on the mines. Labour organisation was suppressed, often violently, and a strict colour-bar enforced in the occupational hierarchy. Labour systems in other industries were initially similar to the mines, but a settled semi-skilled urban African working class slowly evolved from the 1920s. Consumption levels in urban African townships were initially at rural levels, and real incomes of urban blacks grew very slowly. The colour-bar in manufacturing slowly floated upwards after 1945, as demand for semi-skilled labour increased and firms tried to lower labour costs. At the time, white women were moving out of the labour force and being replaced by African males, but white men continued to benefit from racially preferential recruitment policies introduced in the 1920s for low-skill public sector jobs. Migrancy remained a central feature of labour supply into the 1980s, shaping the gender balance within rural households and restricting black women's participation in the labour market. The statistics do not convey the social and individual consequences of migrant labour. Wilson and Ramphele (1989, p199) cite a few personal expressions from an early 1980s study of the migrant system's impact on families: children of migrants going to town: "we find our fathers with concubines yet our mothers are starving"; wives of migrants: "for our husbands we are just their old-age home or their hospital"; and male migrants themselves: "in the towns

we are just like water spilt on the ground."

Though African urbanisation continued to be restricted via the draconian 'pass laws' which tied urban residential rights to employment, industrial growth meant that about one-third of Africans were urbanised by 1960. But rising capital-intensity meant African workers were not absorbed into urban employment in sufficient numbers, so that open unemployment began to rise from the 1960s, though it was managed politically via containment within the bantustans. African trade unions were excluded from the official industrial relations system from the 1920s until 1979, though workers organised nonetheless and there were intermittent periods of strikes and union activity.

White workers were incorporated into economic growth along similar lines as industrialised country workers after 1945, moving into skilled and supervisory positions with steadily rising real wages supporting suburbanisation and mass consumption of consumer durables produced in the domestic economy. Very favourable systems for collective bargaining, social welfare and provision of consumption subsidies and credit helped this process. A good indication of the pattern is car ownership which nearly doubled each decade from the 1940s to the 1980s: white car ownership per capita in the 1960s lagged only the US, Canada and Australia (Beinart, 1994, p174).

Access to labour skills was also racially defined. Church-based schools were available to African children until the 1950s, when the apartheid government introduced 'bantu education', focussed on limited technical and vocational skills and instruction in the vernacular. Although the number of African children in school grew, they remained concentrated in the lower grades – between 1950 and 1960, for example, enrolment doubled, but the proportion in Grades 1-4 remained at 73% (Christie & Collins, 1984, p 178). Even after per capita spending on education increased from the mid-1970s, educational outcomes for Africans were still poor. In 1989, the African pupil:teacher ratio was 38:1 compared with 17:1 for whites, while 52% of teachers in the African school system were underqualified. Not surprisingly, Africans' pass rate for the school-leaving exam was 41% compared with 96% for whites (Hofmeyr & McLennan, 1992, p176). At the post-secondary level, blacks were excluded from established English-language universities from the 1950s, and admitted only to segregated 'bush colleges' set up in

the 1960s.

(iii) Capital.

'Market forces' limiting black access to finance were reinforced by legislation. The 1950 Group Areas Act explicitly restricted firm ownership by blacks to specified areas in cities and towns, and later regulations prevented black entrepreneurs from owning more than one business, from establishing companies or partnerships, or owning business premises even in 'black' areas. African firms were further restricted to certain markets, only 25 activities – mainly retail supply of food and fuel – being allowed before the restrictions were partially relaxed in 1976. The spatial and racial restrictions on property ownership resulted in blacks' lacking collateral to borrow for asset acquisition, and the risks of ownership were increased by the insecurity of urban residential and workplace tenure. As a result, there were very few black South African firms in the medium-size category and in manufacturing – the capital structure had a 'missing middle'.[18] Until the 1990s there were almost no large black-owned firms either. A 1990 survey of two (broadly representative) urban African townships found that 70% of firms were in commerce and trade, and only 17% in manufacturing, about half the proportion found elsewhere in Africa. The average firm had only 2.1 employees, including the proprietor, family workers and trainees. More than half of the firms were younger than three years, and women ran 62% of all firms, but only 43% of manufacturing firms (Riley, 1994, p 12-16).

[18] In 1997, only 12.3% of formal sector employment was in medium-sized firms, with 51-200 employees.

Section 4. The political economy of crisis and transition

Comparative analysis of European welfare states "suggests that three factors are critical to enabling society to bring about sustainable redistributive change. …[first] the emergence of well-defined class interests especially those of the poor ….[second] class pacting, or the creation of alliances between the poor and in particular the middle class…through institutionalised mechanisms of political negotiation ….[and third] electoral and party systems that produce politically responsible and organisationally disciplined parties that act as institutional mediators of social interests" (World Bank, 2003, 243).[19] If this argument is correct, South Africa's political transition to democracy in 1994 should have presented excellent prospects for 'sustainable redistributive change': the interests of the poor were clearly defined as increased employment and access to services to close the gap between blacks and whites, while the nationalist political movement coming into government represented an encompassing cross-class alliance including the poor and (some) middle class sectors. Furthermore, the political transition was one of those moments of social fluidity which come every few decades, and allow unusually wide participation in economic policy debate and discussion on a wider array of issues and options than is otherwise the case. Re-constituting group interests via policy debate to establish a new growth model for redistributive change seemed an attainable objective in South Africa in the early 1990s.

Yet the expectation that South Africa would move onto a path of equalising growth have remained unfulfilled. Most attempts to explain this outcome have focussed on the inadequacies of the ANC's leadership – for some analysts, the leadership's lack of commitment to a progressive outcome led them to 'sell out' and focus on accumulating

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[19] 'Sustainable change' is understood in the present paper to mean the incorporation of poor and middle class interests into a 'growth model' which simultaneously addresses (re-)distribution so that growth and redistribution to the poor reinforce each other, rather than a process where redistribution to the poor is distinct from, and consequent upon, growth, and thus contingent on successful growth. A 'growth model' is a policy framework which synthesizes the interests of different groups to achieve growth, with the synthesis reflecting a distribution 'bargain' sharing the gains from growth amongst the groups incorporated the model's framework, not necessarily all groups in society. For example, Keynesianism used aggregate demand management policies to support domestic market growth, raising profits for firms and wages and living standards for workers together, and emphasising the co-operative dimension of the two groups interaction. In a different framework, the interests of the same groups could conflict, as for example in the fixed exchange rate gold standard system where relations between firms and workers were conflictual. Implicit in this approach is the idea that economic policy debate is a political process in which groups' interests are (re-)constituted (Hall, 1997; Gourevitch, 1989).

wealth and power for themselves and a few cronies, while for others, the problem was the leadership's inability to hold together an effective political coalition and impose progressive policies on reluctant democrats in the white and business communities (Bond, 2000; Marais, 1997; Terreblanche, 2003). Leaving aside the simplistic and often moralistic readings of political leaders' behaviour and interests implied in these 'agency-focussed' approaches, they nonetheless over-emphasise the lack of political will and skill and ignore structural features of the society, in particular the nature and distribution of economic and political power in South Africa at the point of transition, and the structural problems – crisis – which beset the economy for two decades prior to the transition. For all that it provided (black) interest groups with new political resources which shifted the terms of their engagement in the policy debate, the transition was not a *tabula rasa* in which all options were equally likely or possible. Instead, certain political and economic imperatives ruled out some options and weighted social choices towards others.

This section focusses upon these issues, arguing that the origins of post-apartheid policies – which have been unable to fully resolve the problems of employment, poverty and inequality which were the legacy of the apartheid era – lie in the economic crisis and in the transition to democracy. The section begins by outlining the crisis which characterised South Africa from the mid-1970s, which increased class differentiation and transformed social organisation, thereby shaping the actual possibilities for class alliances which would determine post-apartheid outcomes. I then turn to examine the emergence of the dominant class alliance in South Africa today.

(i) Crisis.

From the mid-1970s, South Africa entered a period of crisis as economic and political problems reinforced each other and ultimately led to the transition to democracy. In 1973, the Bretton Woods monetary system collapsed and the `oil shock' triggered a global recession, while spontaneous wage strikes erupted in South Africa in response to rising inflation. The South African economy went into recession in 1974, worsened by capital flight following student uprisings in 1976. It soon became clear that the decline in economic growth was structural rather than temporary, as the production problems in

manufacturing (low productivity and import dependence) were made more serious by increasing volatility of mineral exports and of capital flows, limiting the capacity to adapt to macroeconomic instability and restore investment and growth.

In response to the crisis, and supported by a growing commonality of interests within big business (white-owned, but divided culturally until the 1970s between English and Afrikaans-speakers), the state introduced limited political and economic liberalisation for urban Africans from the late 1970s. The aim was to raise aggregate domestic demand, labour productivity and skill levels, while achieving political stability (Saul & Gelb, 1981). Restrictions were relaxed on Africans' rights to live in the cities, to own houses and businesses, to elect local representatives and to organise trade unions. Social spending on Africans began to increase (Table 9). Coloureds and Indians gained restricted representation in the national legislature in 1983. Liberalisation led not to political quiescence but to increased conflict in the first half of the 1980s, which was heightened by further economic problems after global interest rates rose and the gold price collapsed in 1981. Responding to risk, international creditors in 1985 precipitated a foreign debt crisis, forcing capital outflows for debt repayment and thus contractionary macroeconomic policies to ensure a current account surplus. As the crisis played out, GDP growth declined, from 5.5% per annum in the 1960s to 3.3% in the 1970s and 1.2% in the 1980s. Fixed investment dropped from above 25% of GDP in the 1970s to about 18% in the mid-1980s. Total factor productivity growth in manufacturing dropped from 2.3% per annum in the 1960s to 0.5% in the 1970s and a disastrous -2.9% during the first half of the 1980s. (Gelb, 1991, 1997).

The sectoral impact of the crisis was very uneven. Despite the problems in manufacturing, the most capital-intensive sub-sectors – chemicals and basic metals – continued to expand their capital stock until the early 1980s, driven mostly by public sector investments to enable self-sufficiency in strategic commodities including oil. Interest and exchange rate policy through the 1980s favoured mining exports over manufacturing imports, further raising manufacturing costs and lowering profitability, and producing debt and bankruptcies. Like mining, financial institutions enjoyed a short-term profit boom, as domestic companies sought new equity finance, mergers and

acquisitions rose, foreign corporations disinvested, and the international markets expanded rapidly in the wake of the monetarist shock at the start of the decade. Ownership concentration in South Africa increased: in 1990, six conglomerates centred on mining and finance controlled companies with 80% of the market capitalisation on the Johannesburg Stock Exchange.

The overall decline together with the sectoral unevenness of the crisis had a significant distributional impact, transforming the social structure as income distribution deteriorated. The extreme between-race inequality characteristic of 'grand apartheid' was moderated somewhat, while greater class differentiation led to increased inequality *within* race groups between 1975 and 1991, both black and white (Tables 3, 4, 5).

Unemployment was unofficially estimated at 20.8% in 1980 compared with 11.8% in 1970 (Simkins, cited in Standing et al., 1996, p107), and the increase deepened poverty and inequality. The number of Africans in formal employment grew by only 1.9% in the 1970s, and by only 1% in the 1980s, both well below labour force growth. In fact, labour absorption (the proportion of new labour force entrants who actually find jobs) dropped from 74% in the late 1960s – already low though economic growth was at its peak – to 12.5% in the late 1980s. In other words, absorption dropped from 6 in 8 new entrants finding jobs to 1 in 8 entrants. The effect of output growth on employment similarly had a declined, and the production elasticity of employment[20] dropped from 0.64 in the 1970s to 0.46 in the late 1980s.

The 'skills twist' discussed in Section 2 was already evident from the 1970s. Job losses were primarily amongst unskilled workers, especially in manufacturing and construction (the sectors hardest hit by economic decline) but also in the public sector and services. In contrast, Africans and other blacks with education or skills benefited: technical and white-collar occupations increased as a proportion of the proportion of the labour force in all sectors, and the share of employment in the tertiary service sectors increased at the expense of the primary sectors. The number of Africans in 'middle class' occupations

[20] The percentage increase in employment associated with a 1% increase in output.

grew at more than 6% per annum between 1970 and 1987, nearly trebling to about 600 000. Nineteen percent of all employed Africans were in middle class jobs by the latter date, the middle class comprising 37% of the employed workforce. Africans were nearly one-quarter of the middle class, and Coloureds and Indians another 18% (Crankshaw and Hindson,1990; Hindson,1991).[21]

Together with the changes in the social structure, new forms of social and political organisation emerged.[22] A wide range of organisations in black civil society were established from the late 1970s, including powerful trade union and township-based civic movements, mobilising skilled and semi-skilled African workers, but also professional and business bodies, media and cultural organisations and women's and youth organisations.[23] These organisations were crucial in driving the society towards democratic transition, as winning political rights was naturally a major objective, and the exiled nationalist political movement provided political and strategic focus. But at the same time, they engaged in struggles around the narrower concerns and sectional interests of their constituencies. In this latter context they increasingly found themselves in relations of interdependency with elements of both the white power structure, including business and the state, and foreign agencies (private, governmental and multilateral) who provided financial, intellectual and strategic resources. The day-to-day activities, expansion and financial well-being of these organisations, the material interests of their members and the career paths of their leaders came to depend on their relations and linkages with other organisations in their operating environment:

> "The variable autonomy of the leadership of an organisation from the rank and file must be seen together with the necessity of co-operating with other power centres.... elite co-operation and oligarchy are of critical importance to our understanding of the social construction of class interests ….it seems reasonable

[21] The number for the middle class are based on the official 1987 *Manpower Survey, which* included only formal sector employment and excluded owners of businesses and residents of 'independent' bantustans.
[22] The next four paragraphs are based on the argument in Gelb (1998a).
[23] In 1994, South Africa had about 54 000 non-government organisations and community-based organisations, about one per 740 people (cited in Lodge, 2003, p 169). Of course, not all of these were established after the mid-70s, but a recent survey suggested that the median organisation age was about 19 years, implying half were established after the start of the 1980s.

> to speak of an inherent ambiguity of organised collective action." (Rueschemeyer et al, 1992, p54)

The trade unions, the largest and most powerful of these organisations, exemplified this ambiguity and the dilemmas it posed. They were torn between two impulses, the first a political focus upon mass action and a broad oppositional politics on one hand, and the other a concern with labour-oriented industrial relations intended to win material gains for their members from employers. The latter required institution-building, of both their own organisations and the regulatory framework within which they bargained with employers. The difficulties of institutionalising political opposition gave rise to many debates within the union movement, for example about links with the nationalist movement or union action over 'community' (residential) issues. The common thread in these debates was the need to consolidate and protect unions' organisational strength by building members' participation and ensuring the leadership was not eliminated by state repression. This concern for organisational survival meant that support for the industrial relations focus – emphasising the interdependency with employers (business) – was repeatedly reinforced. As two senior union leaders from the 1980s put it: "each successive plateau to which the unions ascended drew them into increasingly powerful and institutionalised relationships with employers and ultimately the state" (Lewis & Naidoo, 1999, p216). A critical moment in the transition was the campaign against the Labour Relations Act in 1989, when the unions entered a tactical alliance with big business at the latter's initiative. The campaign explicitly recognised the two sides' interdependency by setting out a framework for basic labour and employer rights, and then successfully pressed the state to establish appropriate regulatory institutions, including the right for both unions and employers to approve proposed labour legislation. This was the start of tripartite processes in South Africa, which became an important feature of the transitional and post-apartheid institutional structure.

The significance of these organisational interdependencies is that they altered the aims and objectives of both sides, broadening their scope and lengthening their time horizons, and thereby impelled the country towards a *negotiated* transition to non-racial democracy. The nationalist movement also employed "frontal assault" strategies aimed at overthrowing the state, including popular demonstrations, insurrection and guerrilla

struggle. But though these raised the costs of maintaining power, they did not threaten to achieve their aim.[24] Instead, growing interdependencies forced whites to recognise that black labour and the middle classes could not be incorporated economically unless political rights were extended in an open-ended political process[25], and forced black organisations to accept a future role for whites, implying thereby also acceptance of their property rights, including those of big business, the most significant white interest group.

By 1989, government and business leaders had come to recognise that the logic of economic growth required ending racial authoritarianism. Over and above the political realities within the society, it was clear that until non-racial democracy was assured, South Africa would continue to be excluded from international financial markets, so that the foreign exchange constraint imposing stop-go cycles on the economy would not be relaxed. Facing up to this, government lifted the ban on political organisations in early 1990 and initiated negotiations towards a democratic constitution. Support from big business for these moves was essential, since the government had a new leader with no substantial support base in his own party (O'Meara, 1996).

(ii) Transition.

As noted already, economic difficulties put the need for a new 'growth model' on the agenda, while the political transition enabled a broad debate over the content of the 'model'. The uneven sectoral and social impact of the crisis directly increased inequality, but by shaping economic and political choices in the transition, also influenced the prospects for addressing inequality in the post-apartheid era.

Consistent with its political base, the ANC and allied organisations put forward a pro-poor 'growth model' focussed on basic needs and resting on a cross-class coalition including the poor, working and middle classes (ANC, 1994; see also Harare Workshop, 1990; Gelb, 1990). The model rested on increasing private and public investment to meet basic needs and expand the consumer market. The implicit argument was that as

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[24] Mass demonstrations were common in the mid-80s before being suppressed by martial law from 1985. They enjoyed a brief revival in late 1989 when it was clear that negotiations would start shortly. Unlike in Eastern Europe, they were a symptom rather than a cause of impending political transition.

[25] As late as 1986/7, big business had given explicit support to the continuation of a state of emergency (martial law).

economic activity picked up, investor confidence would be restored, foreign capital inflows and tax revenues rise, and macroeconomic stability improve. Investment programmes in housing and infrastructure would use labour-intensive technologies to create jobs. Also envisaged were the massive expansion of education and training, the creation of a national health service to focus on primary health care, and social welfare delivery totally overhauled. Affirmative action policies were important, and small, especially black-owned, businesses were a major target for redistribution, since they could play a role in both job creation and production of basic wage goods. Participation in economic governance would be broadened via negotiating forums. Macroeconomic and financial policy were seen as facilitative and supportive, not the central focus of policy, with excessive money creation or reliance on capital inflows to be avoided. Possible macroeconomic constraints binding growth from the outset were not addressed.

This approach was expressed in *The Reconstruction and Development Programme,* an ANC election manifesto (ANC, 1994), institutionalised through the establishment of a Ministry for the RDP in the Presidency in 1994, and incorporated into policy through the RDP White Paper in 1994. Yet it survived less than two years – the RDP Ministry was shut in February 1996. In June 1996, the government published a new policy document, *Growth, Employment and Redistribution* or 'GEAR' (South Africa, 1996), which then became the guiding light of economic policy. In contrast to the RDP, the GEAR document was focussed on macroeconomic policy, stating explicitly that "the focus of this document is the overall macroeconomic environment. Social and sectoral policy development cannot be outlined comprehensively here, but [only] a few key linkages between growth, redistribution and a new policy directions." (p 14). Many commentators have seen GEAR as reflecting a triumph of 'neo-liberalism' over the RDP's progressive approach, but this is too simplistic an understanding. It is important to distinguish between the policy documents as written, the policies as implemented and the underlying growth models. Both documents contain significant ambiguities, but particularly the RDP, which includes reference to the need to avoid excessive fiscal expenditure and monetary expansion, and also to the need for export promotion, tariff liberalisation and expansion of mineral beneficiation, hardly a core 'basic need'. The GEAR document on the other hand contains an entire chapter on a 'national social agreement', not generally seen as an element of 'neo-liberalism'. In addition, as

elaborated further below, the tough anti-inflation stance, trade liberalisation, and international financial liberalisation expressed in GEAR were put in place while the RDP was 'in force' and well before GEAR was published, and RDP policies for reprioritising public expenditure were explicitly located within a framework of fiscal deficit targets (Gelb, 1998).

The reality is that there were two growth models 'in play' in the early 1990s. In addition to the basic needs approach expressed in the RDP, there was also an export-led growth approach, the main elements of which were included in the RDP as written. This strategy was directly concerned with the production and macroeconomic problems which had characterised the crisis, focussing on raising industrial profitability to boost growth, and export promotion especially for materials-processing industries. Policies aimed to lower government expenditure and cut taxes for corporations and individuals, reduce credit creation to cut inflation, increase competitive pressure on industry by reducing trade protection and strengthening competition policy. Redistribution was a separate process financed by the benefits of growth. Strict limits on wage increases would be offset by 'development' (redistribution), improving the educational and health systems, and eliminating apartheid legacies in housing and transport. This would contribute to growth by eliminating wasteful apartheid spending and improving labour force skills. Support for small businesses and informal sector activities was crucial for job creation.

The political process meant there was no neat resolution of the economic debate before policy measures were implemented. Only one of the two growth models could emerge as dominant in policy terms (to be distinguished from successful in growth terms). But it was already evident at the start of the transition that the export-led model would become dominant in this sense, because unlike the RDP basic needs model, it addressed the nature of the crisis and of the transition directly (Gelb, 1991). The implication was that the nature of the South African crisis ruled out a big business-poor coalition *within the context* of a 'growth model', so that a synthesis of these groups' interests for 'sustainable redistributive change' was not possible.

The focus of the basic needs model on domestic wage goods sectors did not address issues of profitability or import dependence and export promotion. Because the economic crisis was a crisis of production and the supply-side, To be sustainable macroeconomically, a new growth model could not be based simply on the expansion of aggregate demand through income redistribution intended to stimulate unskilled labour-intensive production of wage goods. Instead, a sustainable growth model had to achieve lower production costs, and address manufacturing's vulnerability to external shocks. A supply-side version of the basic needs model did exist, but then "the emphasis would have to be placed on the redistribution of investment, rather than consumption" (Gelb, 1990). But the existing capital stock was large and complex, and in manufacturing it was dominated by capital-intensive materials processing (basic metals and chemicals), not basic needs-producing sectors. A shift to the latter through incremental transformation of the existing capital structure via investment flows would be a long-run process, inevitably subject to balance of payments problems in the short- and medium-runs, given the binding foreign exchange constraint and the need for investment goods imports. A closed capital account and stable nominal exchange rate were needed, rather than capital account liberalisation.

The size and complexity of the capital stock also meant a 'capital reform' would be necessary, so that political sustainability for the basic needs model was just as complex. The need for capital reform (*a la* land reform) arose from the imperative to legitimate the transition by deracialising economic power and promoting affirmative action for the black middle class. This group was certain to be the most distributionally mobile in the transition, obtaining access to power, influence and remuneration previously unavailable, as ownership and management of private corporations and management of public corporations and state institutions were opened to blacks.[26] Capital reform – deracialising capital ownership – and affirmative action policies in management positions implied the earning of *rent*[27] by individuals in the black middle class, a premium as a return on the political asset of being black. The issue of rents impacted fundamentally

[26] Transition and deracialisation would produce less mobility for the black working classes, since working class occupations were already overwhelmingly black, and the benefits would instead take the form of the removal of discrimination in labour market bargaining and in the workplace.

[27] Rents are returns above the opportunity cost of a good or service, linked to a quality providing the good or service with a competitive advantage.

upon the potential for class coalitions involving the black middle class and the 'poor', on one hand, versus white big business on the other (Gelb, 1992).[28]

The basic needs model, synthesizing the interests of the poor and the black middle classes by shifting production to wage-goods sectors and simultaneously promoting black owners and managers, would require very far-reaching capital reform, at minimum the 'de-conglomeration' of South African business. "With the private sector dominated by a tiny number - five or six - of large conglomerates, the prospects for [the basic needs] accumulation strategy will hinge on the policy adopted towards the latter. For the `redistribution of investment' to be successful, the conglomerates cannot be left in their present form" (Gelb, 1990; also Gelb, 1992). Combined with the break-up of the conglomerates, rent allocation with reciprocity would require a major expansion of the state's role in directing production. But the tiny number of black entrepreneurs especially in manufacturing meant that expanding state production would be necessary. [29] Indeed, the RDP implicitly recognised this since black economic empowerment (BEE) was mentioned for the first time after 93 pages.

The crisis had meant that big business had become more powerful as ownership was concentrated, and the acceptance of its property rights in the context of the negotiated transition meant that any capital reform would require big business' consent and indeed its active participation. South Africa in the early 1990s was a far cry from the colonial abandonment of assets *a la* Korea when the Japanese left or the military state *a la* the Kuomintang in Taiwan, both of which undertook far-reaching land reforms, or from the US occupying force in Japan after 1945, which undertook a far-reaching capital reform.

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[28] The neo-classical view is that rents lead to allocative inefficiencies since returns to factors are not linked to marginal productivity and create incentives for resource shifts to seek easy profits. However, rents can have a growth-enhancing impact by providing incentives for innovation, export promotion and so on. The important issue is whether their principle of allocation rests on grants or on reciprocity, that is, performance standards as a condition for future receipt of rents. Reciprocity requires political as well as administrative capacity since the state must be able to discipline economic agents and withdraw rents if the performance standards are not met (Gelb, 1992; Khan, 2000).

[29] A state role in production on this scale was 'unthinkable' in the context of the shift of 'common sense' in the state versus market debate during the 1980s.

The negotiated nature of the transition meant that capital reform in South Africa would necessarily be an incremental, market-focussed process allocating rents to the black middle class. A capital reform of this nature required an accommodation between the incoming government and the existing owners of capital. It is instructive to look back at the first public meeting inside South Africa between big business and the newly-unbanned ANC, held in May 1990. In spelling out business' position, Gavin Relly (chair of Anglo-American, South Africa's largest conglomerate) pointed to

> "a vision of SA where there is: a growing economy capable of generating the resources to address socio-economic need; a strong diversified economy which creates more wealth by competing successfully in international markets and attracting foreign investment; meaningful productive economic opportunities for all South Africans; a more equitable distribution of resources; the elimination of racial imbalances in the economy through equal opportunity; effective strategies to combat poverty…..we in the corporate sector believe that the retention of domestic and international investor confidence is critical to economic growth….if investors conclude that state intervention and regulation stifle initiative, entrepreneurial activity and the ability to make profit, capital and skills flight will ensure. Renewed foreign capital inflows – in contrast to the capital outflow which is not taking place on a significant scale – are vital to the kind of economic growth that will allow SA to successfully tackle her development agenda." (Relly, 1990)

Relly's prioritisation is noteworthy. For business, opening up to the global economy was the critical payoff from democratisation – the foreign exchange constraint had to be relaxed for growth to resume. Business had already settled on its growth priorities in response to the crisis during the 1980s in the form of the export-led model described above, and in 1989 the new leadership of the apartheid government focussed economic policy on this approach, introducing a firm anti-inflation stance, incentives such as the GEIS (General Export Incentive Scheme implemented in 1990) and moving to liberalise trade policy. Redistribution was separated from growth already in 1990, with the establishment of dedicated free-standing funds by government (the Independent Development Trust) and similar CSR-type investments by private corporations. Capital reform and black business were barely on Relly's agenda, getting only passing

mention as respectively the need “to look at ways of broadening and deepening” popular ownership via employee share-ownership plans, pension funds and the like, and the “need for active encouragement of the emerging black business sector, via finance, advice or training…business is discovering scope of contracting out & sub-contracting *on a commercial basis*.”

Capital reform was certainly on the ANC’s agenda, and in recognising big business’ property rights and necessary role in *any* growth coalition, the ANC in response offered a ‘deal’: macroeconomic stability and openness to international trade and finance, in return for support from business for black economic empowerment (BEE), as it came to be labelled:

> it is quite obvious that the economic power relations represented by the excessive concentration of power in a few white hands have to change….one of South Africa’s imperatives is to end white domination in all its forms, to deracialise the exercise of economic power….we are very conscious of the critical importance of the confidence in the future of both the national and the international business communities and investors. We accept that both these sectors are very important to the process of further development of our economy. We can therefore have no desire to go out of our way to bash them and to undermine or weaken their confidence in the safety of their property and the assurance of a fair return on their investments. But we believe that they too must be sensitive to the fact that any democratic government will have to respond to the justified popular concern about the grossly unequal distribution of economic power. …I am sure we are agreed [on] the need to generate significant domestic savings, to attract substantial foreign investment and to keep the rate of inflation reasonably low...”(Mandela, 1990)

And speaking abroad a few months later, the message was the same:

> the SA economy is in decline. Measures must be taken to ensure that it grows. …. investment, growth of the domestic market, … exports of manufactured

> goods, raising of skill levels to increase labour productivity... redistribution of wealth ....and …affirmative action to ensure black empowerment. .... the private sector must and will play the central and decisive role in the struggle to achieve many of these objectives...let me assure you that the ANC is not an enemy of private enterprise...we are aware that the investor will not invest unless he or she is assured of the security of their investment...The rates of economic growth we seek cannot be achieved without important inflows of foreign capital. We are determined to create the necessary climate which the foreign investor will find attractive. (Mandela, 1991)

In sum, notwithstanding the ongoing policy debate including the formulation of the RDP, the broad outline of the dominant policy framework had been clear at the start of the transition. Structural factors meant that the model would rest on the accommodation between the ANC and big business, creating a distributional coalition of white business and emerging black business, resting on policies to promote globalisation and BEE. While the form of BEE was still unclear, it soon began to be spelled out. This outcome can clearly not be characterised as an ANC 'sell-out', since structural and organisational processes had driven the ANC leadership, including internal organisation, towards the negotiated path which implied an accommodation with business. Furthermore, since the 'deal' was acknowledged very early in the transition, even as the RDP model began to be formulated, it is inappropriate to see in it a loss of hegemony by the left in the wake of political struggle during the first half of the 1990s: the struggle and the policy debate took place in the context of an already existing deal. Rather the issue has been the construction of hegemony in the context of non-racial capitalism. Many aspects of policy emerging from the basic needs model were adopted – land reform, social infrastructure and housing, and pre-eminently, labour market reform. But these must be understood in the context of the overall policy orientation, which meant that they were seen not as dimensions of growth promotion, but as attending to redistribution and redress independently of growth.

Section 5. Inequality post-apartheid.

The accommodation between the ANC and business shaped the growth model which is still in place in South Africa and which has been the context in which inequality and poverty have been addressed since 1994. The trade-off of macroeconomic stability and openness for black economic empowerment (BEE) was intended to create an environment to realise mutual gains through rising fixed investment and a sustainable growth improvement. In this section, we examine *how* the growth model and the 'detached' redistribution approach it embodies have been reflected and implemented in policy, institutions and ideas. The latter two are especially important for assessing changes in non-economic aspects of inequality.

But the 'deal' had two major flaws. First, as discussed in below, there was no 'feedback' from distribution (taking the form of BEE) to growth to support the investment process within the growth model.[30] The second flaw was the risk of co-ordination failure in translating macro stability and external openness into fixed investment, since private investment decisions are not a collective process but the actions of unconnected corporations and subject to individual uncertainty.[31] The risk of coordination failure increased when external financial and trade liberalisation introduced volatility and instability into the macroeconomy. This outcome was unanticipated[32] since the destabilising consequences of globalisation became apparent only after the Mexican peso crisis started in late 1994, at which point the South African reforms were already well underway. Prior to that, the international conventional wisdom focussed on the expected positive results (Krugman, 1995). Once introduced, however, the reforms in South Africa were effectively 'locked in', at least for the relevant medium-run policy horizon, since stopping or reversing them would have resulted in a massive loss of confidence and increased costs of access to external capital.

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[30] In the Keynesian model, the 'feedback' was through rising wages enhancing markets.

[31] That is, investors hold back because they are uncertain about likely strategies of other potential investors as well as government.

[32] At least within the South African debate.

Low investment and external volatility have been the two major factors contributing to the economy's poor growth performance described in Section 2. Even though profitability and productivity in the private sector have improved significantly during the 1990s, private investment has not responded very vigorously, averaging only 11.7% of GDP between 1994 and 2002, compared with 10.5% in 1993. These numbers can be compared with investment rates of more than 16% in 1982 and 12.75% in 1988, in the midst of the foreign debt standstill and forex-constrained growth. In consequence, GDP growth has been very unstable but averaged 2.73% per annum between 1994 and 2002. The South African economy seems to be firmly trapped on a 'low growth' path, the growth rate persistently below 4% per annum. Furthermore, BEE distribution gains have been limited in scope and scale, and also volatile.

(i) Policies

External liberalisation

The start of the transition in 1990 carried with it the promise of re-admission to international financial markets, and planning for external financial liberalisation began very soon, with reform driven in part by private institutions such as the Johannesburg Stock Exchange (JSE). Also in 1990, the state-owned Industrial Development Corporation formulated a tariff reform programme, which became the basis of South Africa's offer to GATT in 1992. In 1993, labour and business joined the GATT negotiation process via the newly-established tripartite National Economic Forum. It was a problem that the transitional situation led to an absence of policy coherence on external liberalisation: debate on different issues was highly fragmented, and not enough attention was paid to issues being discussed in the international arena, such as the pace and sequencing of liberalising reforms, interactions between current account and capital account reform, between policy reform and social safety net issues, and so on. In particular, capital account liberalisation did not support current account liberalisation, since the volatility induced by the former led to real exchange rate shifts which made the adjustment to trade liberalisation more difficult for producers.

Re-entry to international borrowing was facilitated by the signing of an IMF standby credit facility of $750 million by the Transitional Executive Council (the joint ANC-National Party authority which ran the country between December 1993 and April

1994), ostensibly to offset the balance of payments consequences of a drought, but at the same time providing reassurance to potential international investors. By the end of 1994, both Moody's and Standard and Poor's had included South Africa in their ratings and the government had floated a US$750 million international bond issue. Legislation passed in 1994 and 1995 allowed foreign banks to establish branches, deregulated the JSE via a 'Big Bang' allowing foreign security dealers to establish subsidiaries, and abolishing the two-tier exchange rate together with all capital controls on foreign investors, who could now freely move funds in and out. Restrictions on outward investment by domestic investors were relaxed through gradual raising of investments ceilings, though some restrictions still remain today. The removal of the financial rand discount re-established a link between international and domestic interest rates with a country risk wedge between them.

Following liberalisation, foreign entry into both banking and securities trading was rapid, and helped to fuel rapid growth in the financial sector (Table 11), as well as being an important vehicle for capital flow volatility at the macro level. In 1996, the JSE ranked 14th globally by market capitalisation. Trading volumes rose from 2.2 billion shares in 1992 to 5.15 billion in 1995, and liquidity from 5% in 1992 to 27% in 1998. Non-residents accounted for 52% of share transactions by value in 2002. Foreign bank presence also grew rapidly, from 40 representative offices to over 80 banks present in 2000.

Trade liberalisation followed a similar pattern, with a shift from import protection to export promotion in the late 1980s, and the introduction in 1990 of a General Export Incentive Scheme (GEIS), a tax-free cash subsidy to exporters based on domestic value-added, which "was particularly designed to encourage the production and export of processed raw materials, but appears to have overlooked the need to remove constraints on more labour-intensive exports" such as clothing (Jenkins & Siwisa, 1997, p12; see also Levy, 1992, p vii) Generous tax incentives for investment introduced in 1991 ("Section 37E") also focussed on promoting beneficiated exports.

The South African offer proposed to change quantitative restrictions on agricultural and industrial products to tariffs, to lower average tariff levels and increase the number of

duty-free lines. The offer was accepted by other GATT members in December 1993, and South Africa acceded to the WTO in 1995. In September 1994, the ANC government announced tariff reductions in the auto industry even before required by GATT, and in March 1995, scrapped planned adjustment subsidies to the textile sector, while accelerating tariff reductions. The 1996 depreciation of the ZAR led to further acceleration of tariff reductions, announced in GEAR, to take advantage of the implicit protection offered importers by the lower currency.

Trade liberalisation has simplified the tariff structure and lowered protection levels: from 1990 to 1999, the number of tariff lines was reduced from 12500 to 2463 with positive tariffs, the number of bands from 200 to 45, and the (unweighted) mean rate from 27.5% to 16.5%. But the structure of protection remains biased against both upstream development of the machinery and equipment sector, and also against exports, especially after the elimination of GEIS and other export subsidies in 1997 (Lewis, 2001, p43). Sectoral duty drawback programmes replaced GEIS for exporters in two sectors, autos and apparel. Tariff reform was intended in part to reinforce anti-inflation policy through more vigorous product market competition, and the policy thrust was reinforced by scrapping the 22 single-channel marketing boards in agriculture.

The employment impact of trade liberalisation has been the focus of much debate in South Africa, with most studies concluding that employment losses have been associated with technological change (to enhance export competitiveness) rather than trade liberalisation and increased import penetration (Edwards, 1999; ILO, 1999). However, it remains true, as concluded in an analysis done for the World Bank in 1992, that "the industrial policy of the past four decades ….helped create competitive capability in relatively capital-intensive activities, so these activities would disproportionately be the beneficiaries. [of a package of outward-oriented policies such as has been introduced] ….South African manufacturing might be an engine of growth, but not of (direct) employment creation. Such an outcome may be the best than can be achieved" (Levy, 1992, p50).

Macroeconomic policy

Macroeconomic stability is crucial for the impact of economic growth on poverty reduction – excessive volatility in output and employment limits the benefits of economic growth for poor people. This does not imply a persistently tight policy stance, but the judicious use of expansionary macropolicy to support growth when cyclical conditions demand. From 1989, contractionary macroeconomic policy was adopted in South Africa to reduce inflation which had cycled around 15% since 1973, and to stabilize the nominal exchange rate. This would help to lower production costs, increase exports and support capital outflows for debt repayment. The Reserve Bank had a four-to-five year time horizon to break the expectational inertia in the system, and the inflation rate finally dropped to single digits in 1993. The recession was fierce: GDP growth averaged -0.5% per annum between 1990 and 1993, formal sector employment declined each year and real wages rose at only 0.5% per annum until 1994. As noted above, fiscal policy until 1994 was anti-cyclical, not for macroeconomic stability reasons but from political pressures on the Department of Finance to allow spending increases related to the transition – higher public service salaries and massive pension payouts as the NP prepared to exit government, as well as vote-catching expenditure on blacks and rising police spending.

After 1994, macro policy remained contractionary, as the new government sought to gain credibility with lenders. One central outcome of the accommodation between the ANC and big business was continuity in macroeconomic policy management. The SA Reserve Bank had used the German Bundesbank model to argue in the constitutional negotiations for increased central bank independence as the path to lower inflation, ultimately securing 'their' Constitutional clause with ANC support (Gelb, 1998b).[33] The Minister of Finance and the Reserve Bank Governor – appointed in 1993 and 1989 respectively but neither a National Party politician – kept their jobs after 1994, with ANC officials taking over only in 1996 and 1999 respectively. Macroeconomic policy was effectively insulated from the RDP, the Ministry being allowed no influence over monetary policy and very restricted influence over public expenditure. ANC ministers

[33] President Mandela: "We argued for the [Bank's] independence …to send out a strong signal to the international and local business and financial communities that we are serious about this commitment [to sound economic management]." *Finance Week*, September 30 1993.

publicly (re-) committed to fiscal stringency: expenditure re-prioritisation to advance the RDP's redistributive agenda would be in line with fiscal tightening to lower public debt and the deficit, maintaining targets adopted in 1993 (Waldmeir, 1994).[34] In 1995/6, social spending rose by five percentage points of the total expenditure but the overall deficit was maintained.

The GEAR policy in mid-1996 prioritised reducing the deficit below the 3% 'Maastricht' threshold by 1999, and this particular target was achieved. Indeed, fiscal policy is seen as one of the post-apartheid era's major success. An essential contributing factor to the fiscal approach was gains on the revenue side of the budget, rather than expenditure cuts. Social spending increases produced an increase in government current consumption spending, while interest spending also rose. Public sector investment spending – on economic and social infrastructure and hence important for redistribution - was held back to make room for current social spending increases, remaining well below 5% of GDP in 1992 throughout the 1990s, well below the average 1980s level of 10% of GDP. The improvement in revenue collection has been astonishing, with direct tax collections rising by 2.5 percentage points of GDP between 1995 and 1998. The improvement in tax collection has resulted from a significant increase in the tax base and an improvement in compliance. During the 2001/2 fiscal year, the number of taxpayers grew by 10.6% (510 000 taxpayers) after a similar rate of increase during the previous year (SA Revenue Service, 2003). Tax cuts for the middle classes have been enabled by strong growth in revenue collection, even while redistributive spending has risen. Thus supported, the fiscal deficit has been below 3% of GDP since 1999, was 2.1% in 2001/2 and is expected to be 2.6% in 2003/4. For the 2004/5 fiscal year, the government plans to adopt a more anti-cyclical approach with growth expected to dip to below 2%, increasing its spending by 5.7% in real terms and allowing the deficit to rise above 3% of GDP to 3.2% in the face of recessionary conditions (Manuel, 2003). Over the cycle as a whole, though, the 3% deficit target remains in place.

[34] See also speeches by ANC ministers Naidoo and Erwin in RDP (1995). Note that the RDP itself spelled out a commitment to macroeconomic stability in the final section of its final chapter. This made no reference to capital controls, only to the need to avoid 'undue' BoP difficulties and 'excessive reliance' on foreign financing for non-tradable sector expansion.

Turning to monetary policy, nominal interest rates had dropped steadily from 1990 to 1994 tracking inflation downwards, but then began to rise as foreign lenders re-opened credit lines and imposed a country risk premium pushing up the entire interest rate structure. Generally high nominal rates since 1994 have increased the share of government spending on interest payments quite significantly (Table 10). Since 1993, policy has oscillated between rapid and large interest rate increases in a generally vain effort to stem capital outflows and nominal exchange rate deprecation during the periodic episodes of financial flight (in 1996, 1998 and 2001), and on the other hand slow and cautious interest rate declines to ensure demand expansion did not feed into inflation, when the forex market returned to normality. Since inflation continued to decline, real rates rose steadily from 1993 to 1998, before declining until the rand's sudden and massive depreciation in late 2001 forced nominal rates back up with real rates following.

In 1999, the government adopted an inflation targeting regime for monetary policy, targeting a band of 3-6% by April 2002. Although tariff liberalisation and increased product market competition contributed significantly to keeping inflation below the double-digit threshold through the second half of the 1990s, the inflation target was not met as the ZAR's nominal depreciation of 25% in late 2001 pushed price increases above 10%. Food prices rose by 11.4% in 2001, and the maize price more than doubled. But reflecting the elimination of inflationary expectations, the rise in inflation was merely a temporary blip: by late 2003, the rate was back within the target band.

In the balance of payments, there was a small current account deficit from 1995, though the trade account has been in surplus, reflecting low growth, notwithstanding rising exports, and low imports of investment goods. The factor services deficit rose from 1.9% of GDP in 1995 to 2.6% in 2000, driven by profit and dividend outflows in part due to the relocation to the UK and US of the head offices of several major South African corporations. The official exchange rate policy stance aiming at nominal stability was replaced by a focus on real exchange rate competitiveness in the 1996 GEAR policy, followed in turn by an official stance of non-intervention in 2001. None of these approaches have achieved exchange rate stability in the face of capital flow volatility.

Exchange market interventions in 1998 aimed at stabilising the nominal rate significantly weakened the foreign exchange reserves, creating expectations of depreciation, as indeed occurred in late 2001. The reserves were rebuilt by late 2002, with the help of capital inflows and foreign loans.

Following financial liberalisation, the capital account has been driving the overall balance of payments and exchange rate movements, and indirectly also interest rate changes, affecting real output and employment growth. Large capital inflows in 1995, 1997 and 1999 were respectively followed by much reduced inflows in 1996, 1998 and 2000, the shift in each case associated with bouts of currency depreciation. Since the international financial market crash in April 2001, capital flow volatility appears to have increased, with five abrupt and large reversals from one quarter to the next in the subsequent two years: for example, in Q2:2003, an inflow of 2.4% of GDP followed an outflow of 0.4% of GDP in Q1 (SA Reserve Bank, 2003). The ZAR depreciated in nominal terms by 40% against the USD between 1995 and end-2001, and the trade-weighted effective exchange rate by 39%, though not along stable unilinear paths, followed by appreciation by 33% and 37% respectively to July 2003. Over the same periods, the real effective rate depreciated by about 60% overall, again punctuated by periods of real appreciation, the latest being over 40% from end-2001 to mid-2003.

In sum, throughout the period since 1995 there has been no consistent signal from the exchange rate to producers of tradables, increasing uncertainty in production and investment decisions and encouraging 'waiting'. External volatility has undermined the achievements of the monetary and fiscal authorities in stabilising the fiscal accounts and the inflation rate. Although internal stability has made it possible to finance the redistributive measures introduced via the fiscus, even this success has come at a cost in terms of growth and output expansion, which have contributed to the poor outcomes in the labour market. From the perspective of inequality and poverty reduction, macroeconomic policy has been far from an unqualified success.

Investment

As noted, low investment has been a feature of South Africa's poor growth performance since 1994. While contractionary policies and external volatility have certainly been factors in holding back aggregate demand and hence fixed investment, lack of investor confidence and a poor investment climate have also contributed. Notwithstanding macroeconomic stability, government credibility with investors in the *real* economy has been low, and investors are reluctant to make relatively irreversible commitments to projects with long payback periods. Firm surveys have suggested that low confidence is a significant constraint for investors, and that low confidence is related to socio-political factors, since issues identified by firms as significant constraints to investment include labour regulations, taxes, crime & social policy, uncertainty over economic policy and infrastructure. Indeed, this suggests that the presence of very high inequality may itself be a discouragement, if investors feel that there is a possibility of economic policy shifts (due to political activity by the poor) which could result in far-reaching changes in the income distribution regime (Gelb, 2001).

Government has tried to address these problems in three ways, none very successful. The first has been to try to facilitate collective action by investors. Investment accords, or social contracts have been extensively discussed in the attempt to address this co-ordination failure, and two economic summits have been held, but the 'social partners' (business and labour) have been unable and unwilling to make binding commitments. A lot of effort has been expended on attempts to organise business, by supporting attempts to unify business associations across racial, linguistic, regional and sectoral lines, and by establishing high-level 'presidential working groups' for domestic and foreign corporations. Even more specific industrial policy interventions – the Spatial Development Initiatives (SDIs), corridors focussing government planning and financial resources on targeted sectors and areas – have included a mechanism aimed at co-ordination failures involved extensive dialogue sessions between government and private investors, and, just as important, amongst the latter. The purpose was confidence-building, to enhance the private sector's (collective) trust in government's commitment to its policy stance, and to 'lock in' individual firms' decision to invest by enabling each to obtain information about markets, suppliers, and low cost infrastructure

which would result from all firms investing. Inevitably, this communication process has focussed on large investors and materials processing projects.

A second strategy has been to encourage foreign investment, by liberalising the investment regime (including the removal of capital controls) and establishing investment promotion agencies to actively pursue potential investors. South Africa has signed the TRIMS agreements and over 30 bilateral investment treaties since 1994. However, FDI performance has been disappointing quantitatively. Inflows between 1994 and 2002 averaged $1861 million per annum, equivalent to just over $41 per capita, or 1.4% of per capita income (UNCTAD, 2003). South Africa received just about the average per capita FDI inflow for the developing world as a whole, which was $40.42 or 3.5% of per capita income. Between 1995 and 2002, net inward FDI to South Africa was 1.5% of the total for all developing countries, and 12% of flows to sub-Saharan Africa. These shares are significantly lower than corresponding proportions for portfolio in flows to South Africa.

The third approach has been to provide investment incentives, but a major problem has been inconsistency of both instruments and targets. Schemes like GEIS, 37E, the Tax Holiday Scheme and even the SDIs have come and gone. The incentives in the early 1990s, and the SDIs in the late 1990s, focussed on natural resource-based materials exports and the link between industrialisation and cheap energy, identifying large capital- and energy-intensive, materials processing plants as ‘anchor’ projects. A Tax Holiday Scheme was introduced via GEAR to provide incentives for employment creation and investment in specific regions, but withdrawn in 1999 due to low take-up rates. Sectoral Sector-specific duty drawback programmes replaced GEIS for exporters, but only in two sectors: autos and apparel.

Distribution

This section focusses on Black Economic Empowerment, the distribution component of the ‘growth model’, discussing redistribution below. The initial focus of BEE discussion in the early 1990s included both collective and individual approaches, the former aiming to mobilise existing black resources through ‘stokvels’ (rotating savings and credit associations) and pension funds for investment in existing and new assets, while the

latter focussed on transferring some assets from white business to the very small existing group of established black entrepreneurs. Policy discussion focussed on the promotion of black entrepreneurs via conventional SMME strategies, while black business organisations developed objectives for racial transformation of ownership, such as `3-4-5-6' plan by NAFCOC (National African Chambers of Commerce). This argued for a ten-year time frame within corporations listed on the Johannesburg Stock Exchange should have 30% black directors; 40% black share ownership; 50% black suppliers for production inputs; and 60% black management, which was 4% in 1990.

From 1993, individual companies within big business took the initiative and began to implement market-driven schemes, involving sales of subsidiaries funded by debt which was often provided by the vendor. The shares themselves provided security, and loan repayments were premised on rising dividends and share prices. By 1998, there had been over 230 such deals on the JSE, to a value of over ZAR37 billion, but the market crash that year caused losses for both BEE entrepreneurs and lenders, including financial institutions. Black-controlled companies accounted for about 7% of the JSE's market capitalisation in 1998, but by 2002, the figure had dropped to only 2.2%. The narrow focus of the process is underlined by the estimate that there were 260 'previously disadvantaged individuals' holding 367 directorships in 387 JSE-listed companies in September 2002. Over eighty percent of the directorships were non-executive (Empowerdex, 2003).

Given that the financial model was clearly unsustainable, and that the beneficiaries were a tiny proportion of black people[35] essentially operating investment portfolios rather than exercising operational control over productive assets, growing criticism of BEE led to new interventions. In 1999, Black business associations (with government support) established a non-statutory Black Economic Empowerment Commission which in 2001 recommended a more interventionist government strategy, focussing like NAFCOC upon sectoral targets to be achieved over a ten-year period for ownership, management and

[35] Though they included some former trade union officials who had established 'union investment companies' using members' pension funds, enriching themselves at the same time as securing some benefits for workers from share ownership.

high-level occupations and government procurement. During 2000, the government published a liquid fuels sector “transformation charter”, which inaugurated a new policy approach involving official and voluntary sectoral charters. In 2002, a mining sector charter was formulated by government, its leaked first draft targeting 51% black mining ownership by 2014 from a starting level of 14%, but this was lowered to 26% after the equity market reacted badly and mining shares plummeted. Government’s concern in its charters include black management control and skills development as well as ownership, and these are emphasised in the Broad-based Black Economic Empowerment Bill introduced into parliament in 2003. Government also committed to supporting BEE with funding of ZAR10 billion from the 2003 budget, which was committed to ‘broad-based’ approaches including small and medium firms, rather than big transactions. However, the government employees’ pension fund is a major investor in large scale BEE transfers, where private sector funders and corporations transferring equity to BEE owners look to it to help reduce risk.

Ten industry associations in banking and insurance led the formulation of a financial sector charter in 2003, negotiating directly with leaders (employed by their negotiating partners) of the industry’s black professional association, with government playing a supportive role. This charter was greeted with acclaim, even by the Communist Party, because it (unusually) includes targets for service provision to ‘the unbanked’, poor people with little access to financial institutions, estimated to be more than 50% of the total adult population (Finmark Trust, 2003).

As noted in Section 4, BEE reflects a process of transferring *rents* to the black middle classes. The financial model underlying market-driven schemes make the receipt of these rents contingent on share prices rising to enable repayment of the loans provided to fund the deal, and also on growth in profits to provide dividend income. Given low growth in the real economy and especially financial instability, the model was not self-sustaining, and losses occurred. It is evident that a capital reform in a context where existing assets are substantial and concentrated is far more difficult than where capital has not yet accumulated significantly. As one financial engineer put it, “the trick will be finding the R100 billion [to finance BEE to meet the Mining Charter target]. Sustainable

BEE is the goal that nobody has really solved yet. To take from existing shareholders would destroy value for the country as a whole." (cited in Ryan, 2003)[36] But who would bear the cost of a company's transformation, if not existing shareholders? Recent innovations in BEE deals have focussed on efforts to shift the burden away from existing owners of large white businesses. One approach forces the costs onto BEE beneficiaries, by delaying transfer of shares until the price has risen to the point where the transaction becomes viable. If the growth performance of the company (and of the economy) do not warrant it, the deal falls away, or at least the transfer is for a much smaller share of ownership. An alternative argument – the 'Brenthurst Initiative', a proposal of the Oppenheimer family (owners of de Beers) – suggests the burden should be shifted onto society at large through tax incentives to companies transferring equity, which they argued, would encourage firms to both transform racially *and* to invest in new capacity. But no mechanism was proposed to ensure that firms receiving tax benefits did invest, and government rejected the idea. Since the recipients of rents – the BEE beneficiaries of equity transfers – do not control the corporations, performance targets in exchange for government financial assistance for equity transfers are unenforceable.

In sum, existing owners of capital do not want to pay a price for the capital reform at the heart of the 'growth model'. And the expected cost is higher, because the 'growth model' is not self-sustaining: there is no feedback between growth and distribution within the model, in the sense that the rents received by BEE beneficiaries are not re-directed to support expansion of output and profits. The transformation charters set targets for affirmative action in occupational categories, access to services, and allocation of procurement contracts, as well as equity transfers and ownership. But these are targets for the distribution of rents (leading to private returns), not targets for ensuring that rents received contribute to growth and other wider social objectives. Establishing 'reciprocity' *linked to growth* in the context of capital reform has not been possible. In sum, both the growth and distribution aspects of the growth model have failed to deliver successful and sustainable outcomes in their own terms.

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[36] Echoing this, the SASOL corporation (established as a state corporation under apartheid to make oil from coal, privatised in 1989 and now a major international presence in energy) recently described BEE as a risk facing South Africa to the Securities and Exchange Commission.

Redistribution

There issue of redistribution can be approached in two ways. The first is to focus on resources made available through the fiscus, that is, on inputs, while the second is to focus on the extent to which inequality and exclusion are addressed, that is, on outputs and outcomes. In terms of the first approach, Section 2 showed that the fiscal expenditure was used with substantial impact as an instrument of redistribution even before 1994, and the post-apartheid era has seen the further expansion of this role. The distribution of spending has remained stable since 1995, with social service spending close to three-fifths of government current non-interest spending, and education accounting for about between 40% and 45% of social service spending (Table 10). Health and welfare each are allocated just over half the share of education. The remainder of social services spending goes to housing, land reform, water and sanitation and related programmes.

The government has been reasonably effective in distributing money to supplement current incomes, or in providing public services which have this impact. Social assistance programmes have wide coverage and play an important role in alleviating poverty especially in the rural areas. The Department of Social Development reported to the Human Rights Commission (a statutory body) that between 2000 and 2002, 91% of eligible pensioners received their pensions, though only 44% of eligible recipients got child grants, and 59% got disability grants (Human Rights Commission, 2003, p 29).[37] In October 2000, the government announced the supply of free basic water of up to 6000 litres per month to those who could not afford to pay for it, roughly equivalent to the requirement of rural households. This was a reversal of the policy introduced in 1994 charging for water to encourage better demand management (Lodge, 2003, p63). By 2002, the water grant was available in 214 of 309 municipalities (69%), containing 57% of the population. This is a reasonable level of delivery in a short time period, especially since the major obstacle to further expansion was the lack of bulk infrastructure. (Human Rights Commission, 2003, p 41)

[37] These numbers are probably an overestimate, or perhaps count those who got any monthly instalment, rather than those who got every instalment. Van der Berg estimates 75-80% coverage (van der Berg & Bredenkamp, 2002).

In contrast to such income-supplementing programmes, the impact of redistributive programmes has been less effective where a service has to be delivered in an ongoing fashion to build assets (such as in education) or an asset has to be transferred (such as housing or land reform). In some of these programmes, lack of funds is the problem, but this is not the case in education where the issue is the quality of service delivery. van der Berg and Burger (2002) argue that a rise in overall spending in education has made it possible for education spending per pupil to be equalised across races in the Western Cape province since 1994. This has resulted in a substantial narrowing of pupil-teacher ratios across races, but outcomes have nonetheless deteriorated: the proportion of students passing the school-leaving matric exam is down from 35% to 30%. There is a strong correlation between school fees and pass rates and between race and pass rates, but the correlation between pupil-teacher ratios and pass rates is close to zero. Hence, they argue, "inequalities in access to education and in educational resources have become less important than inequalities in outcomes….quality of outcomes [matters more than] of input". (2002, p18) They offer no clear explanation for this result, but it is worth noting that *current* spending on education and pupil-teacher ratios do not fully determine input quality: nationally, 40% percent of schools are inadequately supplied with classrooms and the same proportion have inadequate electricity, while 49% are without textbooks (Human Rights Commission, 2003, p33). In other words, there is a significant 'apartheid backlog' which still remains unredressed, and this impacts fundamentally on the quality of service delivery, and in the case of education, on the accumulation of assets in the form of human capital. At the same time, the fact that this backlog has *not* yet been filled is one index of government's redistributive performance in the post-apartheid era. In other words, addressing the unequal legacy of apartheid – and enabling more effective participation in, and higher returns from, factor markets – has been less extensive than would appear from an examination of expenditure only.

The housing programme reflects similar difficulties. Housing was one of the 'flagship' programmes of the RDP with the ANC promising in 1994 to deliver one million houses within five years, that is, by the second democratic election in 1999. The deadline was missed by only one year, and by 2003, 1.48 million houses had been built, an average of 470 per day over the eight years, which Rust calls "a phenomenal achievement" (2003,

p7). Housing expenditure reached 3.4% of the budget in 1996, before dropping to around 2.1% by 2000. Despite this apparent success, Rust (2003) argues, government is criticised for an excessively narrow focus on the quantitative dimension in relation to provision of housing subsidies. Subsidies are seen to be too low (at least in comparison with other developing countries[38]) and housing *quality* undervalued , while the diversity of housing demand is overlooked together with the need to locate housing development in the context of broader processes of community development. These points are strikingly similar to those made about education in the sense that apparently successful current expenditure programmes have not produced the sought-after improvement in *outcomes*, for reasons which may well lie in the inability (or unwillingness) of government to address the wider context of inequality.

Unlike housing, the land reform programme has missed its quantitative targets by a wide margin. The land reform budget was much smaller than that of housing: between 1995 and 2002, expenditure on land reform was only 12% of that on housing (and only 5% of pension expenditure, reflecting the relative priority of asset versus income redistribution) (Deininger & May, 2000). It is therefore not surprising that the initial targets for land redistribution have not been reached: the RDP set a target of 30% of farmland to be redistributed by 1999, but by 2002, only 1% had been transferred to about 87000 households (Aliber & Mokoena, 2003, p331). The land redistribution programme was one of three within the overall approach to land reform, the others being land restitution and tenure reform. Restitution has been concerned with providing compensation (cash or land) to those who were forcibly removed under earlier regimes. The requirements of this process – in particular, documentary proof of ownership – and the need for an entirely new judicial process to be established have resulted in slow delivery and an urban focus – about half the 80 000 claims made by the 1998 cutoff had been settled by 2002, of which 80% were urban, though a few large rural cases meant that the number of households which benefited was close to 90 000, about the same as in the redistribution programme. The third aspect, tenure reform, has the potential to impact on the largest numbers of people over the long run (almost 6 million households), but the framing legislation has been held up by government's concern to balance the interests of

[38] Rust (2003, p10) cites calculations showing that the subsidy in Colombia is 70% higher than in South Africa (in PPP terms) and in Chile 46% higher.

traditional leaders (most of the affected land being in the former ‘bantustans’) with those of the rural poor.

The land reform programme was linked to housing in the sense that (until a shift of focus in 2000) households received a subsidy within the land redistribution programme of the same size as the housing subsidy. In line with the broader accommodation over property rights and with the Constitution, land redistribution has been based on market transactions (‘willing buyer, willing seller’), so that farm purchases (involving large land parcels) required the pooling of subsidies by large numbers of households. But this created difficulties for the post-transfer operation of the farm, and the more successful projects have been those with smaller groups of beneficiaries (Deininger & May, 2000, p16). Farms purchased tended to be run along much the same lines as under their previous owners (that is, capital- rather than labour-intensive, and extensive cultivation or animal husbandry) and subdivision to allow individual household units was unusual (Aliber & Mokoena, 2003, p335). As in the case of housing, the land redistribution programme was also criticised for failing to take account of the wider context of community development, in this case, the need for rural infrastructure and agricultural support services.

In 2000, the new Minister of Agriculture and Land Affairs appointed by President Mbeki shifted the focus of the land redistribution programme from a ‘welfarist’, poverty reduction focus to productionist, ‘emergent farmer’ concerns.[39] The grant size was raised significantly, from ZAR16000 per household to ZAR20000 to ZAR100 000 per *adult*, depending on the financial contribution made by the household itself. This raised the average grant size per *household* to around ZAR175 000 (a multiple of about ten times its previous level), reducing the number of beneficiaries of the programme to an estimated 1600 – 2500 households per annum (Aliber & Mokoena, 2003, p336). The goal was revised to the establishment of 70 000 black commercial farmers within 15 years, and the approach involved a higher level of government intervention than before, in that government began to purchase land as a principal, for future sale, and also has

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[39] Both emphases had been included in the 1993 World Bank report on which the original redistribution programme was based (Lodge, 2002, p73).

focussed more on the provision of rural services to new farmers. This approach looks more likely to succeed on its own terms, that is, in transferring land to black commercial farmers, but appears to be the rural equivalent of BEE rather than a redistributive programme which could impact positively on inequality.

In summary, policies for redistribution have not yet been successful in enabling *asset* accumulation by poor people, for all the improvement in racial and distributive equity on the expenditure side of the budget. This is important since as we will see in Section 6 below, the government's approach to inequality has recently begun to emphasise assets rather than incomes.

(ii) Institutions

It is obvious that apartheid institutions established and reinforced inequality. There has been a dramatic shift in the institutional landscape since 1994. But to what extent do post-1994 institutions reflect the 'deal' underlying the growth model, and so create obstacles to future changes in inequality? And to what extent are they likely to contribute to addressing inequality in the future?

The overarching new institution is the Constitution, adopted in interim form in 1993 after more than three years of negotiations and finalised in 1996. Naturally, it rests on formal equality of citizens as its first founding value: "South Africa is one sovereign democratic state founded on the following values: (a) Human dignity, the achievement of equality and the advancement of human rights and freedoms" (South Africa, 1996a, s1). The second chapter of the constitution is a Bill of Rights, including formal political rights of citizens, rights of labour (to join trade unions, to engage in collective bargaining and to strike) and property rights, which allow expropriation "in the public interest" but under tightly prescribed conditions. The focus of the definition of 'the public interest' is land reform and equitable access to natural resources; other forms of property (such as capital assets) are not explicitly discussed (South Africa, 1996a, s25).

The property and related clauses allow the *unequal* treatment of citizens to take account of the historical legacy of apartheid in creating structural economic and social

inequality. The Bill of Rights also spells out a range of socio-economic rights, including rights to “adequate housing…health care services….sufficient food and water, and social security…a basic education …[and] further education” (South Africa, 1996a, s26, 27, 29). On the basis of these elements, legal scholars have argued that South Africa’s Constitution reflects “a project of transformative constitutionalism…which engages seriously not only the past that produced it, but also the future that it will partly shape….[which is] committed to transforming South Africa’s ‘political, and social institutions and power relationships in a democratic, participatory and egalitarian direction’… [by] explicitly reject[ing] the social *and* economic status quo” (De Vos, 2001, p260, citing Klare, 1998). In this view, the Constitution addresses *substantive*, not just formal, equality, and the Constitutional Court is an institution which can advance the realisation of these socio-economic rights over the long run.

A series of actions have been launched in the Constitutional Court aimed at shifting the historical *status quo,* focussing on the rights of groups of people, in particular poor people, to demand that the state address their needs, and specifying the nature and limits of the state’s obligation to “respect, protect, promote and fulfil” rights specified in the Bill of Rights (South Africa, 1996a, s7). In the 1998 *Subramoney* case, the issue was the tradeoff between depth and breadth in public service provision: one individual’s right to expensive medical treatment versus the right of many people to obtain more basic care for the same aggregate expenditure. In the *Grootboom* case in 2001, a group of poor people argued that they lacked “adequate housing” to which the Bill of Rights entitled them, because apartheid policies had restricted housing provision for Africans in the Western Cape so as to cap the number of Africans in the province, resulting in a seven year waiting list for permanent post-apartheid housing. They demanded that the state provide temporary housing in the interim.

It is argued that the Court’s judgements in these cases have reflected the transformative perspective, in that they reaffirmed the state’s obligation to address inequality, poverty and historical socio-economic legacies. But it is also recognised that this obligation has limits which bound the individual’s rights – not a right to obtain housing, health care or the like on demand, but “a right to demand that the state take action to *begin* to address”

unmet needs. (De Vos, 2001, p271, emphasis added). According to the Constitution, “the state must take reasonable legislative and other measures, *within its available resources*” (South Africa, 1996, s26(2), 27(2), emphasis added). In other words, the state is not enjoined to provide immediately for needs, but to show both that it will take steps to provide for needs and has a plan for doing so, which should, in determining affordability, take account both of poverty and ‘ability to pay’ as well as government’s fiscal resources. This begs the question of assessing affordability, in particular by not incorporating opportunity cost into the assessment (Budlender, 2003).[40]

The Court’s approach strives for a balance between imposing policy on government, and demanding the government be accountable for its policies. It attempts to nudge government towards meeting its constitutional obligations with respect to socio-economic rights, but leaves it considerable room for manoeuvre in deciding how and when to do so. Even in the TAC case on mother-to-child transmission of HIV, where the judgement affirmed the courts’ right to force government to adjust unconstitutional policies, the state was able to evade it because it did not fit its existing approach to the HIV/Aids issue.

Even though the Constitution’s concern with socio-economic rights provides scope for highlighting inequality through legal means, there is reason to be cautious about the potential in this regard, given the broader political realities in the society. South Africa’s Constitution established several statutory institutions of ‘horizontal accountability’, “the controls that state agencies are supposed to exercise over other state agencies…. an expression of the rule of law in one of the areas where it is hardest to implant, ie over state agents, especially high-ranking officials” (O’Donnell, 1994). In addition to the Constitutional Court, these include the Public Protector and several commissions, the Human Rights Commission, the Commission on Gender Equality and others. These institutions followed from the ANC’s acceptance of constitutionalism during the transition, limiting majority power by the diffusion of power from the executive to bodies with formal political independence, and with oversight and regulatory powers over government. Their purpose is to raise the costs of arbitrary use of power, reducing the incentive to act

[40] In the Subramoney case, the envelope used was the provincial health budget. Alternatives might have been the full provincial budget or the national health budget.

in that fashion, and for this reason are an essential dimension of the consolidation of democracy.

These institutions have certainly opened up possibilities but their impact in South Africa has so far been limited. Like the Constitutional Court, South Africa's horizontal accountability institutions are newly-established, and their capacity (both human and financial) is consequently more or less limited, given their immaturity as institutions. Like the Court, they often take account in their actions of both the weakness of the South African state, that is the limited capacities of those state institutions accountable to them, as well as of the political context within which the governing party operates. There may also be a 'generational' issue involved here – the horizontal institutions are led by people who were participants in the anti-apartheid struggle together with government leaders, so that accountability may be leavened by their shared history. In other words, the accountability relation may become more effective only once these institutions, and the state bodies accountable to them, are being run by a second generation of leaders who were not involved together in the nationalist movement. Even where there have been attempts to enforce accountability on state actors, as in the ongoing 'arms deal' saga (the weapons purchase of 1999), the process has not been fully transparent and free from political issues, but subject to internal concerns within the governing party and considerations about its cohesion and the related issue (given single party dominance) of overall political stability.

The capacity to realise rights depends in part also on the capacity of state institutions, which is uneven and often limited. As Tom Lodge has pointed out, "many of the rights and entitlements that have been legislated as a result of [the Constitution's] provisions remain more notional than real. For example, [there is] continuing routine use of torture in detention cells and prisons. The inefficiency of the judicial system as well as the expense of using it effectively continues to prompt large numbers of poor people to resort to unofficial and often extremely brutal vigilante justice." (2003, 173)

Other 'horizontal institutions' are also surprisingly weak. The role of the trade union movement and civil society organisations in propelling the country to negotiated

political transition led also to a nascent process of tripartite policy discussion during the transitional period between 1990 and 1994. A first step was the labour-capital alliance in 1989 opposing the Labour Relations Act amendments, which led, as discussed above, to the 'Laboria Minute' in 1990 committing the state to a formal negotiation process with the two interest groups about future labour legislation. This was followed in 1991 by a campaign led by COSATU, the trade union federation, against the introduction of a value-added tax. This campaign included an explicit demand by the union leadership for a 'macroeconomic negotiating forum'. Support for this issue from business led to the formation of a 'National Economic Forum' in 1992. Once the NEF was established, other fora proliferated: by mid-1993, there were fifteen national forums concerned with individual sectors, seven regional forums, five serving metropolitan areas and several dozen at local authority level. Their rapid spread reflected the limited political and administrative capacity of government during the transition period.

The spread of the fora before 1994 created a sense of optimism that tripartism and interest group representation could be institutionalised to enable a voice for labour and the poor in the policy process under a democratic government. A permanent statutory body, the National Economic, Development and Labour Council (NEDLAC), was established in 1995 to succeed the National Economic Forum. NEDLAC was structured around four 'chambers' focussing on trade and industry, labour, macroeconomic policy and 'development' , the last including community organisations, women's and youth organisations and the like. Other statutory bodies such as Housing Boards and a Commission for Higher Education similarly enabled broad 'stakeholder' participation.

The benefit of the forums was in providing 'voice' for these groups, but also in institutionalising a bargaining process over policy, imposing the need for explicit discussion of compromises over the sharing of benefits and costs, and reducing the opportunities for special arrangements and concessions for particular groups. NEDLAC achieved several significant successes, including the negotiation of a new Labour Relations Act in July 1995, and a new competition law in 1997, with both business and labour representatives fully involved in the drafting and debate. These laws the went through the usual processes in the parliament, but were dealt with there in the

knowledge that the key affected interest groups had already indicated their support.

But the macroeconomic arms of government – the Treasury and the Reserve Bank – had always been uncomfortable with the notion of *negotiating* policy, and discussions on macro policy were more in the nature of briefings by government than negotiations (Gelb, 1998b). The GEAR policy document in June 1996 brought this into sharp relief and in the process fatally weakened the tripartite impulse. Contrary to the organisation's tradition of internal discussion, there was only the most cursory consultation within the ANC and its allies in the trade unions and the Communist Party about GEAR, while government officials explicitly expressed its 'non-negotiability' and refused to subject it to NEDLAC negotiating processes. The rationale was insulation and autonomy from popular pressures in order to enhance credibility with investors (Williamson & Haggard, 1994; Rodrik, 1996). But, given the fact that GEAR was labelled as the successor to the RDP as the cornerstone of government policy, the lack of consultation either within the political party structures or within NEDLAC led to heated and bitter public debate over the following several years between the ANC leadership and its allies, raising investor fears about policy reversal, which itself undermined the policy's credibility (Gelb, 1998b).

Though the unions were unhappy with the lack of consultation about GEAR within the ANC's own structures, another outcome has been lower confidence in tripartism amongst both labour and business, since the implication was that NEDLAC processes were not seen by government as necessarily binding upon itself. Although discussions and information-sharing in NEDLAC continues, its role as negotiating forum for policies and legislation appears to have receded since 1999. Government has opted for 'multiple bipartism', establishing a series of 'working groups' in which it engages with different economic interests individually, including labour, big business, black business, agriculture, and international investors. This arrangement is more about canvassing views and testing ideas than formal representation, and does not allow for real negotiation *amongst* interest groups over gains and losses from policies. Nor does it facilitate burden-sharing in response to external shocks, which is critical for a flexible response to minimise the impact of shocks on growth sustainability and inequality (Rodrik, 1999, p12).

A social accord or social contract formalising the obligations of business, labour and government with respect to both growth and stabilisation has frequently been advocated as a mechanism to make burden-sharing possible. In 1996, for example, an accord was advocated both in GEAR itself[41], as well as in the tripartite statutory Labour Market Commission (South Africa, 1996b). As noted earlier, a major concern of policy since 1994 has been to overcome the co-ordination difficulties involved in raising private sector investment so as to increase economic growth. But one index of the declining resonance of tripartism has been the dissipating belief that a formal 'peak association' agreement will succeed in addressing the investment-employment quandary. In 1998 a 'Jobs Summit' was held, and in 2003 a 'Growth and Development Summit', but the joint public announcements of 'success' at the meeting itself has not been matched by implementation and results afterward. Nor have these summits involved explicit commitments and obligations from each participant in relation to incomes or expenditures which could be monitored and adjusted over time.

A contributing factor to the lack of progress on a social contract, and indeed to the limited nature of interest-based horizontal interactions enabling inequality to be addressed more effectively, has been the weakness of the collective organisations of both labour and capital, notwithstanding the importance of these groups in the transitional process. This has made agreements difficult to reach since enforcement was likely to be unfeasible. South African business historically has been organised along ethnic and racial lines, and an important part of the process of BEE has been the slow process of unifying business associations. Various initiatives over the decade have foundered on political infighting, not just along racial or even ethnic lines. At the same time as unity across those lines was sought, white business was becoming increasingly fractured along size and economic interest lines: large corporations in natural resource-based industries and finance had less in common with medium size and small firms in manufacturing and non-tradeable services, in relation to international financial and trade liberalisation.

[41] Notwithstanding its denigration as neo-liberal.

In 1994, nineteen mostly white associations joined to form Business South Africa as their NEDLAC representative, while retaining their own identities. Eleven black organisations meanwhile formed the Black Business Council, which has no seat in NEDLAC, the 'black business' seat there being held onto by NAFCOC which stayed out of both BSA and BBC. (BEECOM, 2001, p53 ff) An interesting attempt to reshape the social organisation of business across racial lines occurred in 2000, with merger discussions between the SA Chamber of Business (SACOB) and the National African Chamber of Commerce (NAFCOC), both groups oriented to the domestic real economy and opposed to further tightening of anti-inflation policy and external liberalisation, because its impact on growth. These talks failed, but they indicated the emergence of interest alignment in business, across vertical distinctions.

Recently, there has been some progress with the formation of Business Unity SA (BUSA), and Chambers of Commerce and Industry of SA (CHAMSA), associated organisations bringing together BSA and BBC, on one hand, and the various members of those two bodies on the other. This overcomes the problem of different bodies claiming to be the authentic national voice of business, but the ethnic, racial and sectoral divisions remain. Perhaps a more important step towards business unity has been the financial charter process, which involved negotiations by organisations belonging to BSA and BBC respectively. Such 'bottom-up' processes are more likely to produce lasting identification of shared interests and concerns.

The trade unions on the other hand have also become weaker organisationally. At the federation level, membership has increased: COSATU (the ANC-aligned Congress of South African Trade Unions) grew by 36% and NACTU (the more Africanist National Congress of Trade Unions) by 20% between 1994 and 2001.[42] However, individual unions, especially in the industrial sectors, have experienced reduced membership, while public sector unions have become larger and more prominent in the labour movement. Of COSATU's ten affiliates with more than 100 000 members, all five in industrial sectors had membership peaks before 1996 (the metal and textile unions in 1991), while the commercial sector union and the four public sector unions reached their

[42] Calculated from Macun (2000) and Buhlungu (2003).

all-time membership highs between 1999 and 2001. In 2001, the average decline in membership for each for these ten unions relative to their all-time high was about 13%, but the five industrial unions declined by 22% on average (calculated from Buhlungu, 2003, p194). This shift has been important, since it was the industrial unions which took the lead in the labour movement's (and especially COSATU's) contribution to the liberation struggle during the 1980s. In contrast, since 1994, "the most traumatic clashes have been those involving nurses, teachers and municipal workers", public sector workers faced with civil service restructuring and fiscal cuts (Buhlungu, 2003, p198).

Through the 1990s, many members of the industrial unions have become unemployed, while new career opportunities in both public and private sectors opened up after 1994 for many of their leaders and officials in the context of black middle class advancement via BEE and affirmative action policies. As a result most unions have experienced turnover of leadership and full-time officials during the 1990s, with an inevitable drop in organisational performance as inexperienced leaders went through learning processes.

The labour movement has made substantial gains in establishing a more favourable regulatory environment for the labour market. New legislation includes the Labour Relations Act of 1995 (reinforcing unions' organising rights and individual workers' rights in the workplace) and the Basic Conditions of Employment Act (regulating hiring and firing, working hours and other conditions of service). A statutory Commission for Conciliation, Mediation and Arbitration was established in terms of the Labour Relations Act in 1996 to handle workplace grievances. National negotiation forums have been established in most sectors, while discussions of policy and legislation at NEDLAC occupy the attention of union leadership, notwithstanding its declining impact on policy outcomes. All of these have contributed to the need for officials to spend much more of their time managing the regulatory environment, so that the regulatory gains have ironically resulted in increased distance between officials and rank and file membership, and in some instances open division.

As a result of these factors, the labour movement remains strong enough to act in 'defensive mode' but is no longer sufficiently powerful or influential to press home its

demands. Buhlungu's assessment (2003, p196) that "the ANC has changed from treating COSATU as a special ally to treating it as just one among many forces in society" overstates the case. The debate over GEAR has been as much about the unions' political influence on economic policy as about the substantive policy concerns, and ANC leaders have withstood union pressure to extend their influence while never quite being able (or willing) to quell union opposition. Thus COSATU has been able to slow down privatisation of state enterprises but not entirely prevent it.

The decline in the union movement's power has been one factor in a parallel decline in the public impact of civil society, where organisations which emerged during the 1980s have also experienced resource constraints as foreign aid and domestic funding as well as personnel have been sucked up by the transformation of the state. But a revival is now underway, and new issues and new organisational forms are starting to emerge. Addressing poverty has become a prominent issue for these new social movements, with two of the most successful initiatives being the Treatment Action Campaign (TAC) focussing on HIV/Aids, and the basic income grant (BIG) coalition. The trade unions have been an important component in both of these, but have not taken the lead in either.

Weak interest associations and government's 'multiple bipartism' in which it interacts with different interest groups separately have fragmented processes which rely on interest-based voice and made the construction of horizontal alliances much more difficult. This has been reinforced by the power and weight of vertical relationships and interactions, in which the ANC, the governing political party, is especially important and race and nationalism understandably remain prominent as mobilising ideas. South Africa's system is single-party dominant, the ANC having won close to two-thirds of the vote at both national and local elections since 1994, and is unthreatened in terms of the next election in 2004. Government leaders have relied heavily upon loyalty to the ANC and party discipline to secure support for, or at least compliance with, unpopular policies such as GEAR. The organisation has a reputation for highly centralised internal control from its years as an exile organisation, and several commentators argue that these tendencies have grown stronger during the decade in government (Lodge, 2003, p161;

Southall, 2003, p57-8). In part this is seen as a reflection of the much greater presence in influential positions in both party and government, of those leaders who spent the years of struggle in exile, as compared with those who participated in social mobilisation inside South Africa.

Debate does continue within the ANC and its broader alliance (including the trade unions and the Communist Party), and sometimes heated clashes do lead to threats to break up the organisation. But differences over socio-economic interest have been dominated by shared nationalist ideas and, again, a shared history of struggle. The weight of vertical relations is likely to persist until a new generation of political leadership emerges with no claim to having participated in or led the anti-apartheid struggle. The ANC is also much less concerned with ongoing political mobilisation and participation of its mass membership, at least outside of the context of election campaigns. This also makes it more difficult for an explicit pro-poor 'voice' to emerge in the policy process, and for the aggregation of political expression by the poor. Thus far from the political party providing an institutional mechanism for mediating a pro-poor horizontal pact, the opposite is the case, with the party playing an important role in managing conflict by diffusing it. Both the fragmentation of interest-based expressions and the weight of party politics have contributed to 'status quo bias', consolidating the conventional wisdom on issues such as inequality.

The salience of vertical interactions in the arena of voice and expression of interest is complemented by the emerging institutional structure of macroeconomic management. One aspect of the approach in this regard has been to build credibility in relation to investors, particularly internationally-oriented investors (based abroad and domestically), by establishing domestic institutions (such as an independent central bank) seen to be capable of adhering to rules-based approaches such as inflation targeting and fiscal deficit targets. These approaches limit policymakers' discretion without eliminating it entirely, enabling the use of fiscal, monetary and exchange rate policy to manage distributional conflict consequent upon external shocks. In this regard these policies are distinct from those using a fixed exchange rate regime, in which burden-sharing of the consequences of external shocks is predetermined (Gelb, 2001b).

As in other middle-income countries where the state has some capacity to manage distributional conflict (Brazil?), domestic institutions are complemented by efforts to building multiple international economic alliances and agreements, and to change 'the rules of the game' in the international financial and trading systems in favour of developing countries. On one hand, these efforts are intended to reduce investor risk in the domestic economy, by stabilising flows of goods and money and by opening new markets (Gelb, 2001b). South Africa's role as an initiator of the NEPAD process – in some ways the *leitmotif* of the government's international economic policy – reflects this concern to reduce investor risk within South Africa and the rest of the continent (Gelb, 2002b). Entry into multiple trade agreements – with its neighbours in the Southern African Development Community, with the EU, as well as discussions with the Mercosur countries in Latin America, with India, and with the US - also reflect such concerns.

On the other hand, this engagement in the international arena is crucial for middle-income countries to address the impact of globalisation on their domestic economy and polity, because their more developed financial systems and trade structure means they are engaged with globalisation far more deeply than are low-income countries. In this sense, international and domestic economic policy cannot be distinguished. South Africa takes a consistently multilateral approach in international fora, including the three Bretton Woods institutions and the UN. During the post-apartheid period, it has presented itself as a leader of 'the South', promoting the view that substantial reforms are needed to reinforce rules-based regimes in global governance and promote both substantive and procedural equity amongst nations so as to reduce the costs of globalisation to developing economies. The government's stance towards 'the North' has been reformist, that is, located *within* the parameters of the overall global system reflecting the government's self-conceptualisation as a 'bridge' between North and South: the government clearly shares many assumptions with the major powers concerning the need for systemic order and the obligations and responsibilities of national governments within the system. As 'the North' itself has fractured in the past two years around policy differences over many of these issues, including security against 'terrorism' and the distribution of benefits within the international trading system, South Africa has begun to shift away from this reformist approach towards a more

adversarial approach, choosing to increasingly align itself with other 'South' leaders like Brazil and India. But notwithstanding the argument that the stance internationally is oriented towards the global poor, it remains firmly tied to the growth model implemented in South Africa since 1994.

(iii) Ideas

The concern here is the impact of different sets of ideas on shaping the ways in which it is possible to 'think' about addressing inequality.

The first is political reconciliation between the races, promoted most actively by President Mandela, which is seen as having been necessary to reinforce the accommodation reflected in the transition to democracy (Mangcu, 2003), and indeed the economic 'deal' underpinning the growth model. But reconciliation undermines a potential focus on inequality and the need to address it. At the same time, the 'two nations' metaphor, which President Mbeki has used to structure an alternative to reconciliation in terms of race relations (as implied in the introduction) creates different obstacles to addressing inequality. This is because the 'two nations' approach shapes attitudes toward risk, identifying the democratic transition and equality of rights as a cost to be borne, and as a threat from the 'Other' to established lifestyles and access to resources. The response is to withdraw 'behind walls', to protect one's assets. This stance is not restricted to individuals though, but is also adopted by corporations.

Rights discourse also shapes thinking about inequality. In particular, the 'culture' of rights is narrowly restricted in its scope. For many political leaders, social *mores* are concerned with personal dignity rather than welfare and access to resources. The latter, it is argued, rest on personal responsibility, with the right to welfare seen as 'entitlement', rather than as the counterpart of the social democratic view that 'the state had an unconditional obligation to provide security' (Tony Blair, cited in Barry, 2003). This is reflected in the stance of government on HIV/Aids and on welfare policy, as compared with the position on anti-racism and human rights. In rejecting the demand for a Basic Income Grant (BIG), government spokespeople argued that "only the disabled and sick should receive 'hand-outs' and able adults should 'enjoy the opportunity, dignity and

rewards of work'" (cited in Seekings, 2002, p12). In the debate on the child support grant in 2000, one MP argued that 'women should look at developing themselves'. (cited in Hassim, 2003). The Minister of Social Development at the time (Geraldine Fraser-Moleketi) took the same line: "communities had to change the thinking of those who held out their hands for help but kept their sleeves down, a sign that they were not willing to work." (Cape Times, 25/5/99, cited in Hassim, 2003). Moral discourses continue to infect social security provision, with criticisms that the child support grant is responsible for increasing teenage pregnancy (to access the cash), and similarly that unprotected sex continues despite the risks, because the disability grant that positive HIV status makes possible is a way for individuals to address their poverty.

Fourthly, racially unequal status under apartheid restricted access to cultural and social capital. "Understanding durable inequalities …requires knowing who possesses what resources vis-à-vis others and how resources are mobilised. In societies in which group-based social relationships acquire high significance, individuals in privileged groups accumulate more than one type of resource or capital. Elites with access to economic resources can also control cultural capital [such as knowledge and information normally formalised through educational credentials] and social capital (networks that protect group privilege through formal and informal rules of exclusion)" (World Bank, 2003b, p233). New elites in the context of South Africa's transition faced a need to signify their *right* to these forms of social and cultural capital, despite the fact that they had not had access to or control of such capital in their personal pasts. They needed to signal their membership of the elite to others within it, to be able to gain the advantages conferred by membership. Given the accommodation with business, and the continuities this implied in terms of different types of capital, the 'obvious' mechanism was through conspicuous consumption. This has reinforced consumerism in the society, and the high visibility of inequality, but at the same time also reinforces social exclusion.

Finally, it is important to distinguish between private inequality and public power. Inequality in the 'private sphere', for example in households, cannot be addressed solely through public policy and institutional development, since these formal and public mechanisms do not reach into the private sphere. What is needed is deeper

transformation towards equality in values and norms. The HIV/Aids crisis illustrates this, since the state can provide ARVs and other drugs, as well as education, but women remain more vulnerable to the pandemic due to their lack of control over their bodies and the forms in which they engage in sexual activity (voluntary and involuntary). A similar problem is faced by the implementation of the Maintenance Act which aims to force fathers who leave the home to support their children financially, but the state has found that it is very difficult to enforce court orders requiring payments (Albertyn & Hassim, 2003). The last point underlines the difficulties faced from entrenched ideas and conventional wisdom in order to intervene and address inequality, to which I turn next.

Section 6. Addressing inequality

This section will assess the nature of, and prospects for, policy to reduce poverty and inequality in South Africa today. It will weigh up the sustainability (economic, fiscal and political) of the current approach – the transfer of resources between the two nations – and assess the viability of a 'one nation' approach, or shared growth.

Recently, President Mbeki has raising inequality in priority on government's agenda, focussing actively on the 'two nations' theme[43], and what needs to be done to overcome the divide between them. He has put forward what amounts to an elaborate conceptual framework for policy to address the issue, which is worth repeating at length.

> The masses yearn that we eradicate poverty and underdevelopment as quickly as possible, on the basis of a strong and thriving economy, and to uplift themselves not through charitable handouts but through the dignity of their own labour….we will have to act more vigorously to address such critical areas as poverty eradication, the development of the historically black areas, the restructuring of the system of property relations and therefore the deracialisation of the economy, increasing the black skill levels….(Mbeki, 2002)

> The 'third world economy' exists [within South Africa] side by side with the modern 'first world economy' …[but is] structurally disconnected from [it]. Accordingly the interventions we make with regard to [the 'first world'] economy do not necessarily impact on [the 'third world' economy] in a beneficial manner….it is sometimes argued that higher rates of economic growth of 6 percent and above would on their own lead to the reduction of unemployment in our country. This is part of a proposition about an automatic so-called trickle-down effect … none of this is true….[We must] intervene in the 'third world economy' [to] end its underdevelopment and marginalisation…so that it becomes part of the 'first world economy' …. [This] will require sustained government

[43] Though the distinction between them is now couched more in socio-economic than racial terms: first world/third world economies, first/second economies.

> intervention […and] resource transfers … includ[ing] education and training, capital for business development and …social and economic infrastructure marketing information and appropriate technology.” (Mbeki, 2003a)

> It is impossible to solve the problem of global poverty through reliance on ‘the market’… the poor do not present themselves as an appropriate object of attention by capital, whose inner logic is the maximisation of profit…Something else must happen to make these poor multitudes ‘bankable’ …the EU has found the practical answer…a comprehensive system of ‘structural funds’ [for] transforming regions [which] cannot easily come into the ‘market system’ ensuring access to private capital...public capital has first to be invested in these regions to prepare them [to be] attractive to private capital. (Mbeki, 2003b)

> The advances we have made with regard to the First Economy [since 1994] have put us in a position to meet the objective fundamental to our strategic outlook, to reduce the numbers of those dependent on social grants by enabling them to pull themselves out of poverty by engaging in gainful economic activity and exercising their right to human dignity. (Mbeki, 2003c)

This presents a strong ‘social democratic’ vision, in which government does a lot *for* the poor, notwithstanding the emphasis on self-improvement, personal responsibility and the like. The focus is on promoting individual and collective asset accumulation in the ‘second economy’ to enable participation in the ‘first economy’ from which it is structurally disconnected. Is this ‘new’ approach new? It involves *inter alia* education, construction of social infrastructure via an expanded public works programmes (recently announced), SMME development and skills training. All of these are programmes involving not income supplements and transfer to the poor, but rather asset transfers and accumulation by the poor. As noted above, the latter have not been entirely successful from the point of view of outcome quality during the post-apartheid period. An issue which needs to be addressed, in other words, is not whether the ‘structural funds’ can be *spent*, but what their impact on inequality might be.

Secondly, is this approach feasible? A major issue is that it argues that the 'first economy' has been successful, and indeed that the policies applied to the 'first economy' have been responsible for that success, so that this economy should be left untouched. In fact, this 'success' has to be substantially qualified, even in its own terms. The explicitly dualist conception ignores the two-way growth-distribution interactions which affect inequality, and which as seen above continue to characterise the post-apartheid economy. To the extent that growth in the 'first economy', it is unequalising and thus widens the gap between the 'two economies'. But furthermore, the discussion above shows that the 'second economy' affects growth – negatively – in a range of different ways, of which investor confidence may be the most significant.

Though 'first economy' growth is unequalising when it succeeds, even if it does so, the resources available for redistribution are limited. On the one hand, the 'easy' fiscal gains from tax and revenue collection reform are close to exhaustion, and an expansion of needed funds will require new strategies for their mobilisation. On the other hand, the debate on the basic income grant (BIG) – where the prospect of substantial increases in indirect tax rates failed to gain support as a financing mechanism – suggests that there is limited political will to support fiscal transfers.

The two nations view does not make a convincing case for 'shared growth', resting its position on moral grounds only. The benefits to those in the 'first economy' remain unclear, even for the long-run, not just on an aggregate basis but on an individual basis – this leads to 'status quo bias'.

A model of 'shared growth' – one which addresses polarisation and inequality directly – must have sustainable employment creation at its centre, if its benefits are to be spread widely enough. At this point, this would require a macroeconomic policy intervention. But the political conditions for shared growth are daunting: it requires social consensus or in the terms used above, a 'vertical' alliance of the middle class and the poor. For this a necessary condition seems to be the existence of an *own* (national) tradition of co-operation *or* compromise, which in many cases, goes back a long time. South Africa does not have such a tradition, of course, our tradition being one of conflict, exclusion

and ‘winner takes all’. It is only over the last fifteen years or so that co-operation and compromise have become more of a reality in South Africa. As the discussion of institutions in Section 5 shows, this reality remains very fragile.

Traditions of co-operation and compromise are not innate or natural – where they have emerged and develop to enable social consensus to be achieved, it had usually involved a sense of crisis and threatened national survival, in other words, a crisis. Consensus becomes possible when the leadership identifies the crisis, ‘names’ it for its population, that is, underlines the seriousness of the situation, and points in a credible fashion to a strategic way forward, enabling groups to put aside sectional differences and unite together. Credibility here implies giving individuals and groups confidence that they will not be forced to carry an unfair share of the burden, giving each group the belief that the policies will be sustained (Campos & Root, 1996, p1). The most obvious example of such a crisis is a war or its threat, but there are also examples of natural disasters, for example, in Holland, “problems with water meant we had to take collective political action to be able to build dikes. You can’t do that on your own. We always say the origins of Dutch democracy lies in this co-operative dike-building.” (Winner, 2001, p49).

South Africa does indeed face a crisis and perhaps a threat to survival in the form of poverty and inequality and their attendant social ills. The difference is that this enemy is not as clearly identifiable as those faced in war or natural disasters – it has inchoate form, its negative effects are felt rather slowly, and its carriers are internal, part of ‘the nation’ itself: there is no clear ‘Other’. These characteristics may be the reason that the economic growth rate seems trapped between zero and 3.5 -4 percent, rather than fluctuating more widely but returning after slumps to strongly positive levels, as in east Asian economies for example. Instead of disintegrating more fully and rapidly, and then recovering equally quickly, South Africa stagnates, rotting slowly. This also makes it more difficult to mobilise consensus.

Is consensus achievable in South Africa? One possibility may be that the cost-benefit calculus of the lower middle and working classes shifts, pushing them to alter their political position. If this happens quickly and even violently, a ‘tipping point’ could be

reached, creating a more visible sense of crisis which then evolves (with skilful leadership on all sides) into a new consensus. This is one scenario, optimistic in some ways, but others are also imaginable.

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