THE NEXT DECADE

Perspectives on South Africa's growth and development

THE CENTRE FOR DEVELOPMENT AND ENTERPRISE

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Edited by
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THE CENTRE FOR DEVELOPMENT AND ENTERPRISE

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A community road worker directs traffic at a construction site near Qunu in the Eastern Cape. Lori Waselchuk / South Photos / The Bigger Picture

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INTRODUCTION

There is no ideal vantage point from which to take stock of South Africa's progress since its transition to democracy, and the challenges facing it during its next phase of development. Elections provide a five-yearly opportunity to do so, but in a context distorted by the anxieties of political contest, even in an electoral system as uncompetitive as our own. Anniversaries such as the first ten years of democracy in 2004 will always be important for a democracy such as ours, which has its origins in foundation rather than evolution. But the ink on the anniversary report cards had hardly dried when events surrounding the succession to ANC leadership threatened to alter the political landscape significantly, and demonstrated how unpredictable the state of our nation could be.

Oblivious to both anniversaries and political headlines, the long-term trends in society and the economy that shape and define South Africa's challenges continue to unfold. The purpose of this publication is to highlight those trends, and identify those challenges. However, it is neither a state-of-the-nation panorama, nor a snapshot of a historical moment in the life of a democracy. It is guided by selection and priorities, and above all by the acceptance that our progress as a nation is ragged and uneven. Trends may be out of step with each other, contradictions may abound, and synthesis may be very difficult. Difficulty is no excuse for defeatism, however, and in this spirit CDE commissioned research in those areas which we believed to be particularly important.

Our starting point was the belief that economic growth is central to all of the country's challenges. We regard economic growth as the only way to create a context in which poverty and persistent economic, social, and political divisions can be tackled.

Two things in particular shape and condition this belief in growth. The first is that relations between state and market are fundamental to the prospects of economic growth, and that this relationship is more complex and nuanced than can be captured by slogans about 'the Washington Consensus' and 'neoliberalism'. Secondly, we understand the prospects of economic growth to be determined by a wider range of influences than simply economic policy, narrowly defined. In particular, the state of the social fabric – encompassing issues such as family structures, social mobility, and inequality – provides (or fails to provide) essential 'soft' growth factors such as confidence, trust in the system, independence of thought, and entrepreneurial qualities such as innovation and risk-taking that complement the 'hard' policy-driven conditions for growth. It is out of these and other concerns that the research agenda took shape, and the menu of challenges developed.

REFLECTIONS AND NARRATIVES

To place this agenda in context, CDE commissioned a survey of opinion-makers' views on the first ten years of inclusive democracy from Marion Edmunds, an edited version of which appears as chapter 1. It confirms how difficult it is to pull everything together, and hope for a South African synthesis. The best device for communicating the varied and nuanced assessments of the interviewees was to compose them into narratives. While they reflected different perspectives, and emphasised different elements, they overlapped to a significant degree. This overlap perhaps reflects the tendency of opinion-makers to cluster around the centre and the consciousness of the need for nation building, which guides almost all constituencies of opinion in South Africa today.

The prominence given in the various narratives to questions of economic management and growth draws attention to one important aspect of South African politics and policy-making: that the government's handling of the economy is more warmly approved by those who are outside its natural constituency – or even compete with it for office – than those with whom it is in alliance and on whom it relies for support. This has formed part of the backdrop of South African politics for so long that its influence is in danger of being underestimated. The left sees government economic policies in terms of mythologies of betrayal, in which the government was bullied or bribed by business and the forces of globalisation into adopting market-friendly policies. When left-wing critics commonly refer to the adoption of the macroeconomic Growth, Employment, and Redistribution (GEAR) strategy as a 'policy coup d'état', supporters of the market do not rule out (in private at least) a 'counter-coup' as a result of a power struggle within the ANC. Neither of these interpretations – whatever their plausibility – offer the transparency and predictability that open electoral competition on economic policy would bring. Certainly, the belief that the government's acceptance of the market is a product of duress rather than conversion dies hard on all sides, and it does not help to build the trust and confidence that could make growth an inclusive national goal.

In short, we do not have the luxury possessed by other democracies of open contest on issues of taxation and public expenditure at the polls. What we do have is a situation where one of the most important interest groups in the country is convinced that market-friendly policies have been introduced by a coup, and the other suspects that they might be reversed by another one. This is an unpromising basis for a grand coalition to push economic growth up to 6 per cent.

CONTEXT FOR GROWTH

Our research agenda took shape against the background of these reflections and narratives. For the purposes of presentation, our material has been organised into four parts. The first analyses the social environment and its implications for current and future rates of growth by focusing on:

- the extent to which the current social fabric facilitates and/or encourages forms of behaviour and attitudes that will promote economic growth; and
- its effect on the private sector's ability to expand its activities and thereby promote growth.

The second part looks at the dynamics of mobility and inequality, and contains chapters on:

- patterns of inequality, and how these are likely to impact on future prospects for growth;
- the nature of the African middle class, and the role it has played and is likely to play in promoting economic growth; and

- the nature of the BEE policy programme, and how it will affect our chances of achieving higher rates of growth. The central issue here is whether BEE will bring about social changes that will make our society more conducive to growth, or whether it is creating perverse incentives that will ultimately retard growth.

The third part examines the economic policy-making environment, including:

- the major structural features that shape the environment which economic policy-makers must deal with; and
- the policy directions that have been adopted to promote economic growth directly. We ask how successful these policies have been, and are likely to be in the future.

The fourth and final part looks at an 'extended growth agenda', and contains assessments of:

- the government's performance in terms of service delivery and the implications of this delivery for our growth prospects; and
- the ways in which the government is tackling poverty. We focus on support of the poor by means of welfare transfers, and how the government is trying to improve their prospects by means of developmental interventions. Again, the crucial issue is whether these interventions are likely to promote growth or to hinder it.

CAN THE SOCIAL FABRIC SUSTAIN GROWTH?

Family, young people, and the social fabric

Understandably, perhaps, such debate as there is on economic growth has emphasised 'hard' policy issues of macroeconomic and microeconomic strategy and management, extending to supply-side issues such as raising levels of formal skills. Arguably, too little attention has been paid to 'soft' – or indirect – pre-conditions for growth such as family structure and socialisation. Yet, as Peter Delius notes in his chapter, *Family, young people, and the social fabric,* if the key institutions of socialisation are dysfunctional, prospects of economic growth are compromised. Fractured families and pathological peer groups – such as gangs – which rival and even take the place of families and schools where they are weak, help feed alienation and criminality. In addition, weak families and schools fail to pass on the 'soft' values and skills – ethics, ambition, confidence, teamwork, motivation – that allow individuals to accumulate social capital, and are vital complements to the 'hard' skills of literacy and vocation. It is the combination of the two that make people truly employable, and disappointing educational performance statistics over the last ten years should be seen in this light. Certainly, there is cause for concern about the effectiveness of the family as an instrument of socialisation in South Africa today:

- 48 per cent of mothers give birth before they are 20;
- only one third of children live with both their parents; and
- one quarter live in households with no parents at all.

Not all trends are bad, however. Delius points to the positive influence of religion and sport on young people, as well as the proliferation of independent schools, many of them religious in character. The government has engaged with the problems – mindful no doubt of the significance of the age structure of the population, notably that more than 14 million South Africans are under 15. Child support grants provide a widening though increasingly expensive safety net, but the dedicated organisations – the Youth Commission, the Umsobomvu Youth Fund and, especially, the Moral Regeneration Campaign – have not begun to repair the major rents in the social fabric. Even where gains have been made, the effects of the AIDS pandemic threaten to undo them.

As Delius concludes, the task of reconstructing households, families, and peer groups is difficult and slow. The most obvious vehicle – formal education – faces its own massive challenges in improving delivery of orthodox skills, never mind the growth-supporting attitudes and values needed to complement them. Difficult or not, however, strengthening the social fabric is one of the most important challenges facing South Africa, and one that deserves a higher position on the growth agenda.

The effect of crime on business

The most obvious sign of strain in the social fabric is crime, which Jeff McCarthy addresses in his chapter, *The effect of crime on business.* Quoting studies by, among others, the World Bank and major South African banks, he quantifies the cost of crime to business in terms of security expenditure, theft, asset depreciation, and foregone investment. Among his major findings are:

- Since 1994 crime has not necessarily worsened in all sectors, and in some respects has improved; but a longer-term time horizon and global perspective show that the incidence of violent crime in particular has worsened, and that South Africa has one of the worst rates of violent crime in the world. According to the latest figures (2004), 43 out of every 100 000 South Africans (ie, 20 000 of them) are murdered every year. The world average is eight per 100 000.
- Despite praiseworthy efforts by the government to devote more resources to crime, the police and judicial services are woefully under-resourced. There are seven police personnel – administrative staff and managers as well as detectives – per murder, compared with 340 in Austria, 180 in Australia, and 46 in the United States. There are 0,1 prosecutors per murder, compared with 4,4 in Sweden and 2,4 in Australia.
- Crime impacts severely on business and is a leading deterrent of investment, apparently more so than in any other country. A 2000 World Bank study found that 83 per cent of South African firms experienced crime in 1998. The CEOs of large manufacturing firms also gave crime a rating of 3,6 out of 4 as a constraint on business growth – making it the most serious constraint in South Africa, and indeed, the most serious of all the possible constraints in any of the countries included in the study.
- Government, civil society, and the private sector view crime differently. The government does take crime seriously, has increased resources for fighting it, has modified its earlier approach of seeing it as an issue of social dysfunction, and is prepared to take a more overt 'law and order' stance. But it is intolerant of criticism of continuing high crime levels, tend-

ing to blame the messenger rather than confronting the evidence; and it remains highly suspicious of private initiatives to make individuals and communities more secure. Meanwhile, vigilantism seems to be increasing in poor communities, as is privatised policing among the middle classes and in business circles.

These findings ensure that key issues such as poor resource levels for the police and justice departments as well as strategic tension between treating crime as a security versus a social issue are central to the chapter. However, perhaps the most significant point to emerge from McCarthy's analysis is an impression of the destructive terms of debate in which crime is addressed in South Africa.

In a sense, while worrying and disappointing, this is not entirely surprising. People of all political persuasions, from supporters of a minimalist state to those enthusiastic for social engineering, can agree that maintaining safety and security is the most basic function of the state. It follows that accusations of state failure to make its citizens secure are particularly wounding. In addition, there is a strong racial factor. Until recently, attributions of criminality on racial, cultural, or ethnic grounds were both commonplace and open. Suspicion that racial explanations of crime remain embedded, if more camouflaged, leads to a counterproductive defensiveness and closure of debate under the banner of anti-racism.

Too often, crime is treated as a party-political football and a racial battleground rather than a common challenge. According to McCarthy, two things are urgently needed: a recognition that crime is a major, perhaps *the* major, deterrent to investment; and the need for the state to recognise, facilitate, and support private sector and civil society-led responses to the challenges posed by crime. For this to happen, however, there has to be a wider recognition that responses to crime must unite rather than divide the country.

MOBILITY AND INEQUALITY

Inequality in post-apartheid South Africa

The question of inequality is central to understanding any society. The levels and trajectory of inequality and, importantly, what a society *thinks* of inequality, are all habitually used to assess its political stability, growth prospects, and even its moral standing. There is no doubt that South Africa is a highly unequal society, but sometimes characterisations of this – as 'two nations' or 'two economies' – miss the nuances and dynamics of inequality. In their chapter, *Inequality in post-apartheid South Africa,* Jeremy Seekings, Nicoli Nattrass, and Murray Leibbrandt do much to portray the complexity and changing faces of inequality. Two findings in particular stand out:

- Inequality in post-apartheid South Africa comprises two divergent trends: declining interracial inequality, and rising intra-racial inequality. There has been a steady shift in the income shares of the different 'racial groups', so that by 2000 there were about as many African households in the top income quintile (ie the top 20 per cent of earners) as white households. Yet inequality within each 'race group' has risen steadily, especially among Africans. These changes reflect a continuing shift from race to class as the basis of South African inequality.

- South Africa redistributes more extensively through public expenditure and tax and welfare systems than any other developing country for which data are readily available. In 1993-4 the top income quintile paid up to 80 per cent of all taxes, and received 12 per cent of all public spending on education, health, social assistance, housing, and water, falling to 8 per cent by 1997. The poorest quintile paid 2 per cent of taxes and received 31 per cent of public spending (33 per cent in 1997).

The first of these findings – the shift in inequality from race to class – is reasonably well known, but largely unassimilated. At its simplest, the country does not know how to come to terms with this fact, which can point either to the success of a project of racial mobility or the failure of an egalitarian one. How the ruling ANC Alliance will come to terms with the changing dynamics of inequality will greatly determine the country's political future, and with it attitudes to growth and economic policy. The second decade of democracy is beginning to develop a distinctive set of issues, and there are signs that the increasing class element in inequality is forcing its way on to the political agenda. Criticisms of the narrow range of beneficiaries of BEE deals and the populist furore over the dismissal of deputy president Jacob Zuma have been indications of this. So were the wave of wage strikes in mid-2005, and the sometimes violent demonstrations over poor service delivery which began in the Free State in September 2004 and spread to many parts of the country, continuing into 2005.

The second of these findings – about redistribution through tax and welfare transfers – is probably less well known. For instance, as the chapter points out, redistribution by these means noticeably reduces South Africa's notoriously unfavourable Gini coefficient of inequality. However this never plays a part in modifying the almost ritual references to this measure in public debate, both here and overseas. While the redistributive effect of tax and welfare may be cause for satisfaction or even pride, the chapter signposts both the narrowness of the tax base, and the limits to what public expenditure has done – and can do – to alleviate poverty. These issues will certainly be cause for concern in the future. They have clearly been influential in the calculations of the National Treasury, as the government's rejection of pressure to introduce a basic income grant suggests, as well as increasingly frequent expressions of concern by the minister of finance, Trevor Manuel, over the growth in social grant payments. However, populist pressure to dilute or ignore these concerns will continue to pose a challenge, probably an escalating one.

South Africa's new middle class

Concerns about old and new inequalities, as well as the effects of poverty on growth prospects, social stability, and the fiscal resources of the state, have led to an emphasis on the condition of the poor during the first ten years of democracy. However understandable this has been, it has led to neglect of one of the most visible signs of transformation since 1994: the 'new' or 'emerging' African middle class. Of course, social mobility and the spread of affluence among some African people have not been ignored; indeed, they have been celebrated, according to taste, as the fruit of expanding markets and/or legislated equity.

However, two tendencies have shaped discussion of this group. The first has been the tendency to underestimate the complexity of occupational hierarchies, and to confuse 'white-collar' (non-manual) occupations with middle class status. This is probably a response to pressure, for nation-building purposes, to be optimistic about redistribution and the spread of opportunity, and to include as many African people as possible in the middle class. The second tendency is to concentrate on the emerging African middle class merely as a market segment and a harbinger of expanding demand for property and many consumer goods. While there is nothing wrong with this perspective, it has largely been treated superficially, and tells us little about the deeper significance of this new class for longer-term prospects of market-led growth, political pluralism, and social stability.

In order to pursue these lines of enquiry, Lawrence Schlemmer conducted a nationally representative survey for CDE, defining 'middle class' more narrowly than most journalistic and market research reports. He also conducted in-depth interviews with a smaller group of African middle class 'opinion-leaders'. The findings are reported in his chapter, *South Africa's new middle class,* and can be summarised as follows:

- *The new African middle class is growing very rapidly, but remains very small in both absolute and relative terms.*

By Schlemmer's definition and calculations, its growth rate has been a phenomenal 21 per cent a year over the decade to 2003, more than eight times faster than the adult population as a whole. The most recent growth has been explosive, from 135 000 to about 185 000 in the 12 months to late 2004. This amounts to a growth rate of 37 per cent over the year. However, the core African middle class is still very small: it comprised 9 per cent of the South African core middle class in late 2003, rising very rapidly but to a still comparatively small proportion of around 11 per cent in late 2004.

- *The new African middle class does not yet have a cohesive identity and internal coherence.*

Because of its rapid emergence, no single identity is typical of the African middle class. For example, while more than half its members define themselves as falling within the range of the lower to upper middle class, a substantial number are reluctant to do so, and identify with workers and the poor, while a small minority perceives itself as an 'elite'.

- *Some class affinities are emerging that support a business-driven development path, but they coexist with widespread scepticism about business and a belief in strong government*.

Middle-class Africans support entrepreneurship and business-driven development, but reject privatisation and support government intervention, redistribution, and to some extent a nationalist development mission.

- *There are few links between the African and white middle classes*.

African and white middle class social networks are largely separate. Only about 8 percent of the African sample named English- or Afrikaans-speakers among their two closest personal friends. The areas of least convergence between the two middle classes are party-political identity and attitudes to affirmative action. Thirty-five percent agree that 'whites should take second place' in South Africa. However, there is nascent common ground: attitudes among middle class Africans over issues such as education, child-rearing, child socialisation, and savings and investments are similar to those of their white counterparts. The African middle class is also very religious, which may offer another avenue of reconciliation.

- *Middle class Africans are as likely to support the ANC as Africans in general, but their support hinges on affirmative action, employment equity, and empowerment policies***.**

Sixty four per cent of the sample would vote for the ANC, but 40 per cent are dissatisfied with the government's performance, with criticisms from the left and the right. These misgivings about performance and some willingness to consider political alternatives suggest that the African middle class is not an ideological captive of the ANC. Their adherence to the party is a pragmatic choice, with roughly 60 per cent perceiving white occupational success to be an illegitimate consequence of racial discrimination, and consequently favouring affirmative action and other state policies that work towards racial representation.

The central conclusion towards which this study points is that the first wave of the emerging African middle class – which has been largely formed by the transformation of the public sector – has created a middle class that is uncertain about the private sector, and alienated from the established white middle class. A crucial test will be whether the ongoing transformation of the private sector will allow the African middle class to continue expanding while its values coalesce – and whether racial fault lines can be bridged so that a broader middle class can emerge and act as a core of economic growth and political stability.

Black economic empowerment

Many of the concerns about how our society will view inequality, and uncertainties about the emergence of new classes, may be clarified and opened up in terms of how the policy of BEE will unfold. However, even more important than that is the fact that BEE is crucial to the future of growth and economic development.

The centrality of BEE to South Africa's political and economic future shows how the terms of the policy debate and agenda have changed over the first ten years of democracy. In the immediate post-1994 period, that agenda – insofar as it dealt with economic development and distributive issues – was dominated on the left by the Reconstruction and Development Programme (RDP), and for business by issues such as the need for prudent macroeconomic management, privatisation, and deregulation. It is remarkable that without any established, broad-based, and coherent constituency behind it (at any rate by comparison with business and the labour unions), BEE has emerged from government departments and the highest ranks of policy-makers to dominate the agenda.

Perhaps it is because of this pedigree and the fact that it lacks unequivocal support from the country's highest-profile economic interest groups that it has been driven singlemindedly and so vocally from the highest level of government. Certainly, the government has been vocal in portraying BEE as non-negotiable in principle (though flexible up to a point in forms and processes). It is clearly an area in which the government is very sensitive, and about which both business and labour have deep – though muted and coded – misgivings.

Kevin Davie's chapter, *Black economic empowerment,* lists both concerns about and positive features of BEE. Business concerns range from the effect on asset values of transfer to black ownership under legislative pressure to a more generalised concern about increased regulation and government interference in the market. On the positive side is the successful move to broaden BEE to take more account of human resource development and other aspects of black advancement as well as ownership. Other positives are the prospect of reducing uncertainty about future economic policy by embracing BEE, and the fact that empowerment deals are generally good for share prices and, at least in some sectors of business (such as the corporate finance divisions of major banks), directly good for business.

Politically, the fallout from BEE is only beginning to be felt. Empowerment deals have greatly enriched a small number of individuals (including, as Davie points out, some white dealmakers and advisers), while being slow to offer anything substantial to the broad mass of black people (including middle class people who, in Schlemmer's survey, were sceptical about BEE). Already the ANC and the alliance it leads are under visible strain as their upper ranks accommodate an increasing number of millionaires (and billionaires). Until BEE delivers on its promise to broaden measurably and credibly the participation of more than an elite of black people in the economy, that tension will grow.

Potentially more important than the respective concerns of business and the ANC Alliance, however, are broader concerns and questions about economic growth. These include the difficult – and as yet unanswered – question that is central to Davie's review: how will the transfer of assets demanded by BEE be financed? Another concern is the question of how BEE will live up to the claims of its enthusiasts that it will not merely transfer existing businesses, but add value to them, and grow new ones.

ECONOMIC POLICY: GEAR AND AFTER

Any consideration of the importance of economic growth in democratic South Africa today – and the challenges that have to be faced in achieving it – might usefully start by listing some of the more influential assumptions that jostle for priority in influencing government from one direction or another:

- Sustained levels of higher economic growth than South Africa has enjoyed over the past 40 years or so are essential if inroads are to be made into high unemployment and poverty levels, and a sustained improvement in human development indices achieved: 6 per cent is frequently cited as a desirable rate of consistent economic growth.
- There is widespread (though uneven) acceptance in the government and ruling alliance that the market and private enterprise must play a substantial part in achieving growth. However, much of this acceptance appears to be reluctant, subject to heavy qualification in the form of a high level of desired state regulation and direction, and subject to reversal if populist influence on policy-making increases.
- Economic growth is viewed not merely as a vehicle for increasing material security and disposable income at the discretion of those that earn it, but the fulfilment of a moral purpose, and a mission to undo historical injustices.
- South Africa faces acute challenges of not only increasing the rate of growth but also addressing the problem of its diffusion, away from centres of concentration of skills, competitiveness, and opportunity in the major metropolitan areas to areas with little to offer in the way of human or natural resources and working markets of any kind.
- The most articulate and influential economic pressure groups, business and organised labour,

account for a considerably smaller proportion of the population than in many of the societies and economies that provide inspiration and models for our economic debates.

- The world in which we aspire to raise our levels of economic growth is becoming more competitive. Other developing countries are now rising to become world manufacturing centres: India pays its workers R220 week, China R200, the Philippines less than R200; China is now exporting more than France, Italy, and Britain; China and India now produce 4 million graduates every year.[1]

Some of these propositions enjoy more or less universal acceptance; others receive less attention than they deserve. However, it is important to bear them all in mind when considering the contributions to this section which deal with growth and South Africa's recent growth performance.

South Africa is currently celebrating the enhanced economic growth rates achieved in the last two quarters of 2004, and looking forward to the sustained improvement forecast by the minister of finance, Trevor Manuel, in his budget speech in February 2005. Noting that economic growth had averaged 3,2 per cent a year over the past four years, he went on to forecast continued expansion to a sustained performance of between 4 and 4,5 per cent over the next three years, which would signal a significant step-change in the pace of economic growth. Seen in the perspective of South Africa's performance over the past four decades, this is indeed cause for celebration.

However, even these achievements do not impress in the African context and relative to other competitor countries. For example, although South Africa had the largest economy in sub-Saharan Africa in 2003, it was only third in GNP per capita after Botswana and Mauritius, while its growth rate was the second lowest of all (above Zimbabwe). Moreover, during the third quarter of 2004 – while South Africa's improved economic performance was being widely celebrated at home – *The Economist*'s list of 25 leading emerging market economies revealed that South Africa ranked only 20th in terms of GDP growth. This was well behind countries such as Egypt, Turkey, Brazil, Chile and Indonesia, let alone China and India, which led the pack with growth rates more than twice that of South Africa. Considering the scale of the last two countries and the broad comparability in size of the 20 that did as well if not better than South Africa, it should be clear that this country is still being outperformed by most of its competitors.

Chapters by Greta Steyn and Merle Holden examine the context of economic policy in which South Africa's growth performance is located. Holden stands back from the direct policy arena to reflect on long-term growth policy and the factors that influence it, concluding that more radical market-led policies are necessary to overcome unfavourable structural constraints. Steyn points out that with so many elements and vested interests jostling for priority in government economic and economy-related policies, contradictions are hard to avoid, and coherence hard to come by. That the government now emphasises the 'two economies' approach to growth in South Africa may be a tacit admission of the contradictions inherent in adopting a high-wage, high-skills, outward-oriented approach to employment and economic growth in a country that has an oversupply of low-skilled, unemployed workers.

Perhaps the failure of GEAR to realise its growth and employment targets has made the government shy of making a single package of ambitious (and radical) policies the centrepiece of an inspirational national drive for growth. The interests both within and outside the ANC Alliance are too numerous, and the price of failure along the lines of the GEAR targets too high.

Certainly, since about 2000, GEAR has been re-labelled in official language as a successful macroeconomic stabilisation policy – a sort of 'pre-growth' policy. Growth is now taken care of in piecemeal initiatives that include a microeconomic reform package – including elements of industrial strategy – enhanced infrastructural investment, the overhaul of state-owned enterprises with the aim of reducing costs of doing business, and a commitment in the long term to improve the country's skills base through education and training.

Insofar as there is an overarching framework, it is provided by a narrative that develops the idea of GEAR as a stabilisation expedient, and depicts the relationship between state and market in the following terms: if the state 'receded' at all under GEAR (an arguable point), it did so only to gather strength and return to intervene more broadly and deeply to remedy market failure in the interests of growth, this time in the guise of the 'developmental state'. The idea of the developmental state is flexible enough to cover many areas of government activism, and provides a 'growth dimension' to many policy areas. The key idea linking growth and the developmental state is that of the two economies.

THE EXTENDED GROWTH AGENDA

Social delivery

There is probably no more evocative word than 'delivery' to sum up South African politics in the democratic era – certainly in its second five years. It can be heard in the cries of protestors as well as in the government's self-measure of achievements, and its self-assigned targets. It has become the measure of all things to the extent that the government insists that policy is no longer an issue, only delivery. Especially in the absence of a credible electoral challenge, delivery is the ground on which party-political contest largely has to be joined.

Delivery issues in the first decade of democracy have entailed several levels of policy. Dominating all others has been the reorientation of public expenditure from white to black in the interest of equity. Of lesser but growing importance is the debate over extending and deepening the range and reach of services, and how affordable this could be. Still dwarfed by the equity issue, but also growing, are questions of performance, capacity, and quality of public expenditure. Last, and so far least, but potentially the most important, as fiscal and capacity limits to public expenditure are recognised, are issues of whether government is always the best or most appropriate vehicle for delivery, and how public and private delivery of services might coexist or partner each other.

In their chapter, Servaas van der Berg and Ronelle Burger review social delivery during the first decade of democracy in terms of a wide range of indicators. Among their most salient findings are:

- By 1997, all social programmes were already progressive in the sense that the poor gained disproportionately from them; and
- The black population's share of social spending increased from 28 per cent in 1975 to 70 per cent in 1993, and 80 per cent in 1997.

However, these measures of equity provide only a minimum baseline of delivery achievement. As Van der Berg and Burger point out, shifts of fiscal resources do not always translate into real resource shifts and quality outcomes.

The most striking evidence of this is in education, where outcomes are readily measurable. After 1994, expenditure on education increased in real terms and was made substantially more equitable. However, reorientation and an increase of inputs have not led to measurably better (or more equitable) outcomes:

- The number of successful matriculants has not increased since 1994, and university exemptions – a measure of quality – have declined;
- Matriculation pass rates differ substantially by school fee levels, ranging from 47 per cent in the poorest schools (where fees are less than R20 per year) to 96 per cent in the richest schools – the gap in pass rates between schools in which blacks comprise more than 70 per cent of pupils is even slightly larger;
- A recent study of reading and comprehension and mathematics performance in ten countries in southern and east Africa found that South African learners performed third worst of all the countries on both tests.

It is clear from Van der Berg and Burger's review that not all aspects of delivery display the same malaise of capacity and quality as education. However, none is more central to the social fabric and skills base of the country – and hence to our growth prospects. What is more, none is– or should be – more open to policy innovation in the challenge to turn inputs into quality outputs by finding a credible basis for coexistence and partnership between market and public delivery.

Welfare and development

In a country with levels of poverty and inequality as high as South Africa's, substantial expenditure on social welfare seems a non-negotiable policy priority. However, as with all delivery issues, this still leaves much room for debate on levels, targets, capacities, and effectiveness. In his chapter, *Welfare and development: is the state on the right path?,* Stefan Schirmer concludes that welfare policies are helping to cope with poverty, but have limited developmental impact, and threaten to consume increasing amounts of resources to an extent that will impinge seriously on other priorities. Among the salient points of his review are:

- Assuming that real incomes among the old remain constant, and the welfare programme is unchanged, welfare expenditure will rise in constant prices from close to R27 billion in 2002 to R42 billion in 2012, a 55 per cent increase;
- Between 2002 and 2004, expenditure on social grants rose from 2 per cent of GDP to almost 4 per cent, and South Africa now spends more on welfare and covers a larger proportion of the population than any other developing country.
- The department of social development's own figures reveal that it provides social grants to more than 5,6 million beneficiaries (11,9 per cent of the population) at a cost of more than R2, 2 billion a month.
- The minister of finance, Trevor Manuel, has expressed concern about these trends on the grounds that welfare expenditure is placing strain on plans to stimulate the economy through infrastructure expenditure.

These indications suggest that unless higher – and, crucially, more inclusive – growth rates are achieved, the government will face difficult choices about expenditure priorities and taxation rates merely to alleviate poverty, not to transform it.

ADDRESSING GROWTH AND COHESION: BETTING ON THE DEVELOPMENTAL STATE

The essential point of our collected research is that we face major challenges of social cohesion and sluggish growth. All societies face tradeoffs in addressing these challenges. They can sacrifice regulation and protection for accelerated growth, job creation, and social mobility, hoping that higher living standards will compensate for insecurity and inequality. In South Africa there is no substantial political voice for a 'dash for growth' along these lines. On the other hand, we do not have the broad base of economic participation, the depth of taxpayers, and the wide diffusion of skills to finance the other approach; ie, a social and economic dispensation that can afford to risk sluggish growth in order to give priority to social cohesion.

Aware of this resources gap, and appreciating the width of the policy dilemmas that the twin demands of growth and cohesion create, the government has opted for faith in 'the developmental state' to stretch across them. It is with this statement of faith in government activism that the next decade of South Africa's new democracy properly begins. The role of the state that this model calls for is extensive and ambitious. Intervening to inject resources here, to spur efficiency there, it is a proactive regulator and provider. This model will provide the platform for debate into this next decade. But at this early stage, it is worth noting three pragmatic reservations:

- Will the state have the capacity and human resources to discharge the responsibilities that government policy has assigned to it? Mounting evidence suggests that it won't.
- Which will expand more decisively, the tax base or the welfare roll? Will the safety net have developmental or dependency effects?
- Will the developmental state 'prime the pump' for markets to operate better and more extensively (as the government hopes and claims)? Or will it acquire a momentum and demands of its own that will crowd out markets?

No matter how technocratic and rational policy-making is, it has something in common with gambling. In each of these three cases, the government is betting on the developmental state. Our prospects of growth and cohesion in the coming decade will depend on how the wager pays off.

ENDNOTES

1 The figures are taken from a speech made by the British Chancellor of the Exchequer, Gordon Brown, to the annual Labour Party Conference on 27 September 2004.

PART 1

Reflections and narratives

CHAPTER 1

REALITY AND PERCEPTION TEN YEARS ON

Marion Edmunds

The dramatic turnabout in South Africa's fortunes between 1990 and 1994 inevitably raised a range of responses – consternation, anxiety, joy, confusion, fear, and hope. South Africa's negotiated transition took place amid expectations of disaster on the one hand, and utopian hopes on the other.

Ten years on, neither of these extremes has come to pass, although they still retain some purchase on hopes and fears. Although a pragmatic centre has established itself, contrasting versions of the past and the future still compete in the debate on South Africa's progress. Two extremes are frequently cited. Critics whose evaluation is considered overly negative are labelled *Afro-pessimistic*. This charge implies that the critics' view of South Africa is inspired by a deep-seated negativity about all things African, enhanced by racism or a prejudice that African people are unable to succeed, as a result of inherent failings in themselves or their societies.

The other extreme has no corresponding familiar label, but could perhaps be described as *Afro-optimistic*. These views attempt to highlight what is working in Africa, and South Africa in particular. Observers at this end of the spectrum set the failures of Africa within the context of obstacles, which are often beyond the control of Africans themselves. These include the legacy of colonialism and apartheid, and the consequent inequities between the developed and developing world. This approach stresses the need to acknowledge the positive, in part for the sake of the impact it has on society, to celebrate heroes and breakthroughs, and resist the 'slough of despond' that sometimes engulfs Africa-watchers. This commitment to affirmative reporting can degenerate into mindless boosterism and denial.

While both of these tendencies are real and well-enough recognised, what is less well recognised is the way that they feed on each other in counter cycles of prejudiced selectivity on one hand, contrasted with defensive patriotism and racial pride on the other.

Optimism and pessimism are useful poles with which to orient discourse about South Africa's performance. However, the study on which this chapter is based found much more varied and nuanced assessments. The study starts by investigating seven primary functional constituencies to establish in broad terms how each sees South Africa's progress since 1994. There is a variety of views within each constituency, defying simple categorisation and reflecting a dynamic range of political opinion in South Africa. The second part of the study condenses the constituencies of opinion and combines the data into six narratives which, between them, reveal how South Africans reflected on their country's progress in the tenth year of democracy. Finally, questions are asked about the possibilities for synthesis. Can a single assessment of South Africa's performance be derived?

THE SEVEN CONSTITUENCIES

Professional commentators

Professional commentators tend to praise the government's efficiency in running the economy. Reflecting liberal-corporate sentiment, commentator and former editor Stephen Mulholland has described the government's 'firm stance on monetary and fiscal policy' as 'most encouraging'.[1] Reg Rumney of BusinessMap Foundation suggests, 'We have done pretty well on the macroeconomic side.' He adds, however, that 'Afro-pessimism means that investors believe that there is a premium attached to investing – which affects us negatively'.[2]

Most commentators do point to other critical problems. Across the spectrum, many worry about the persistent inequalities of wealth, ten years after the end of the apartheid government. There is deep awareness of the possible negative implications.

Dr Charles Villa-Vicencio, executive director of the Institute for Justice and Reconciliation, has suggested that, 'unless black people are drawn into the "moneyed class", there is little chance of either sustaining a market-based economy or increasing the size of the cake ... political discord and social unrest are likely to intensify in the years ahead'.[3] *Sunday Times* editor Mondli Makhanya argues, 'macro-economic success gets a big tick but we are in denial about poverty'.[4] There are a range of perspectives on how best to address this and other issues, varying mostly according to the political standpoints of individuals.

Within the ranks of professional commentators, significantly different concerns animate two significant sub-sectors: black and Afrikaans commentators.

Black society is in the throes of radical changes. Black commentators – most of them socially and economically upwardly mobile – tend to be optimistic, indeed celebratory. The sub-constituency is dominated by two groups – African nationalists and those located on the Left of the political spectrum. Although policy positions on state intervention versus market differ – and while there are dissenting voices – a consistent trend has been the assertion that accelerated empowerment is salient. Dr Eddie Maloka, executive director of the Africa Institute of South Africa, suggests that 'if government deals with the poor and black empowerment, it will be okay'.[5] Reclaiming (African) cultural identity is also a central concern. Prof Malegapuru Makgoba, vice-chancellor of the University of KwaZulu-Natal, argues that 'one (needs to) be granted the dignity, respect and courtesy ... to understand what ... African-ness means in the wider world. Many South Africans are so colonised that they refuse to get out of the shackles of the apartheid education system'.[6]

Before 1994, the Afrikaner establishment told much of the South African story, tending to squeeze out other voices. Now removed from power, its views range from acceptance of the new order to despondency. *Rapport* editor Tim du Plessis argues that 'young Afrikaners (tend to be) more positive than their parents' and that while 'there is a lack of interest in politics', most Afrikaners have 'accepted the new order'.[7] But others differ. Kallie Kriel of the Afrikaans trade union Solidarity argues that 'alienation levels are extremely high because of affirmative action'.[8]

Business

Before 1994 many business people were anxious that an ANC government would pursue a socialist economic policy, characterised by heavy social spending and state intervention in the economy. But ten years later the business constituency is generally complimentary about the way the economy is being managed, and how South Africa is developing. Businessman and former SACOB CEO Kevin Wakeford remarks that 'the South African economy has not been nationalised and fears of socialist intervention (have been dispelled) ... South Africa has taken a route that has confounded critics'. [9]

Nevertheless, the business constituency warns that many obstacles still hold back economic growth. The sector generally believes that some of these could be overcome through more decisive leadership by government. The present SACOB CEO, James Lennox, argues that 'textbook economic policy is uninspiring. We need to have the fundamentals right but are we adapting to meet the challenge of circumstances? We should be allowed to be more creative'.[10] Economist Tony Twine suggests that a greater openness to the global economy, in the wake of the demise of the apartheid siege economy, means that 'life has become far more complex in the private sector .... It ain't what it used to be and all these pressures come home to roost on the man on the street, trying to find stable employment'.[11]

Frustration over the form and pace of black economic empowerment (BEE) is felt in both black and white business communities, often for different reasons. There is concern over government's failure to deliver basic services such as transport, and to implement effective measures to combat crime. Regulatory hurdles, inadequate generation of necessary skills, and (failed) small business development are also frequently cited as problems. Such omissions are seen as hindering economic growth. Business supports president Thabo Mbeki's New Partnership for Africa's Development (NEPAD) programme, but remains sceptical of its overall success, particularly in the light of his failure to halt economic collapse in Zimbabwe.

Labour

Labour's broadly left perspective takes it as given that South Africa in 2003 is a better place for its workers than in 1994. Its members acknowledge that there have been great successes, such as the comprehensive labour legislation passed by parliament, entrenching, among other things, minimum wages, worker-friendly procedures, substantive labour rights, and affirmative action.

But while organised labour's claims have won the day with respect to workplace issues, the former anti-apartheid labour activists who have remained in the union movement are extremely critical when it comes to broad economic direction.

Government's growth, employment and redistribution (GEAR) macroeconomic strategy, adopted in 1996, comes in for particular criticism. Labour believes generally that the ANC has forsaken its socialist agenda. Labour activist and journalist Terry Bell says: 'From the viewpoint of the majority – the traditional ANC constituency – the management of the economy has been disastrous, given the level of job losses and the growing wage and welfare gap between rich and poor.'[12]

Labour is highly suspicious of the creation of a black elite through empowerment, even though some of the new black chairmen and directors of companies are from its own ranks. Some believe this has been a form of co-option. Na-iem Dollie writes that 'former Labour leaders are now mining magnates. New challenges face the Labour unions and they will have to take on board that the ANC is the new boss'.[13] Labour has also been critical of government's failure to bring down high rates of unemployment, and sided with the NGO sector in its criticism of government's muddled HIV/AIDS policy and its approach to Zimbabwe.

The NGO sector

Many of the first crop of government and public service leaders came from NGO ranks and the constituency appeared poised to influence policy-making decisively. Ten years later, NGOs are disappointed. They believe the poor are poorer and that government has failed the very people who voted them in. Margaret Legum, chairperson of the SA New Economic Network, argues: 'The painful and dangerous problem in SA is poverty ... on the part of at least half our population; and this has led to crime, mass home dispossession and utility cut-offs, widespread malnutrition, gang culture, family abuse and massive misery. Our government has followed to the letter all the complex prescriptions for growth and employment recommended by the conventional economists. And the problem is worse.'[14] The NGO constituency has been marginalised in policy-making and tensions with government have deepened.

Within the NGO constituency, some have taken a more extreme position on government's perceived failure to deliver, and openly entered into the political arena with their complaints. These groupings, or 'social movements', are more aggressive in their rhetoric and behaviour and are prepared to break the law to pursue their agenda. They predict a new revolution by impoverished, young, frustrated people if nothing changes soon. They believe that parliament no longer represents the will of the people.

Political parties

The opposition parties are circumspect about the country's progress, and criticise the failings of the country, both out of a genuine conviction, and also to woo voters among the disillusioned of the electorate. Almost across the board the opposition approves of national economic management. But it is intensely aware that there are large numbers of poor and unemployed South Africans, whose material conditions have not significantly improved in the last ten years. Opposition parties all argue that corruption and cronyism in the ruling alliance is undermining the moral standing of the country, and has hurt the poor. They are vocal on government's perceived failure to tackle crime, and they constantly raise government's failure to address HIV/AIDS to demonstrate the weakness of the presidency. Off the soapbox, opposition parties generally think the country is doing moderately well under the circumstances, despite the many problems. They are broadly supportive of NEPAD and believe that while its achievements to date are not particularly substantial, it contains future promise. But they see the crisis in Zimbabwe as NEPAD's Achilles' heel, and possibly a harbinger of its downfall.

The media

The media have been accused, especially by government, of feeding Afro-pessimistic sentiments locally and abroad. The vast majority in the media reject such an analysis, arguing that they report in good faith. However, there is frustration, as much within the media as outside that the story of the new South Africa lacks depth and accuracy, and therefore is inadequate and cannot be wholly trusted. The media argue that government's failure to communicate its successes effectively is part of the problem.

The mainstream media have supported the economic successes claimed by government, although in recent years there has been more coverage of poverty. The debate about the importance of BEE has become a dominant theme, although comment is often hedged with political considerations. Latterly, comments on the failure of BEE to uplift the poor – while enriching a small group of black business people – have been given more space in business pages.

The media report positively on NEPAD as evidence that South Africa has grown in stature since the end of apartheid. But almost across the board it is critical of 'quiet diplomacy' on Zimbabwe and government's handling of the HIV/AIDS crisis. Crime and corruption have become increasingly significant and contentious stories, although there is wariness about breaking corruption stories. The media also expose failures in government delivery of basic services. Newsrooms generally are writing stories about black and white people in a more integrated way, revealing ten years down the line a more racially integrated society.

The foreign media play an important role in presenting South Africa internationally. The 1994 all-race elections in South Africa were one of the biggest news stories of the 20th century. But since 1994 South Africa's international profile has dropped dramatically, and the news coverage has taken on a more negative tone. It has been the negative stories that have really achieved prominence, in particular Mbeki's position on HIV/AIDS and his failure to take a more assertive line in the Zimbabwean crisis.

The government

The view that emanates from the presidency and government is one of a nation under construction, a great work in progress, with talent and determination overcoming obstacles against the odds. It is a positive view of the new South Africa, reflecting pride in the success of the formal economy, defensive in the continuing marginalisation of the 'second economy'. It responds to criticism that it has failed to deliver jobs and services with an unpredictable mixture of sophisticated, evidence-based argument (for instance in refuting charges of 'jobless growth') and thin-skinned, angry outbursts in which opponents (political parties, the media, NGOs, the left, 'white' business) are branded with ideological and/or racial slogans.

Government believes South Africa is pioneering a statesmanlike revolution in international politics. Mbeki hails his pan-African programme, NEPAD, as a partial success already, as it signifies a shift in the way the continent of Africa views itself. And the South African government is also trying hard to get the world to shake off Afro-pessimism and to view and respond to the continent differently. In this bid, it is contemptuous of criticism that dents South Africa's image, suggesting much of it emanates from racist whites wishing to protect apartheid privileges, or individuals deficient in patriotism.

Government asserts that the country is winning the war against crime by improving the performance of the police and harnessing the support of communities. It cites its 'moral regeneration' campaign as demonstrating commitment against, among other things, corruption, a topic about which it has been accused of sending mixed messages. Ten years after apartheid, government is claiming that the 'tide has turned' on delivery, and that services will be rolled out more systematically and effectively than ever before, in particular to the poor. Landmarks in delivery are celebrated to emphasise the momentum government is building towards providing 'a better life for all'.

THE STORIES THAT THE CONSTITUENCIES OF OPINION TELL

The various versions of how South Africa is doing tell different stories of its development, ten years down the line. These meta-narratives straddle the constituencies of opinion described above.

Story 1: A liberation movement becomes the new establishment

The 1994 elections saw the final collapse of the Afrikaner nationalist establishment and made way for a new predominantly black administration, drawn from the ranks of the ANC, the left-wing anti-apartheid movements, NGOs, exiled political activists, and, to a lesser extent, the former TBVC states and homelands. Over the past ten years, this administration has consolidated and developed into a new post-apartheid establishment. Its views are generated within and around both government and the ANC, and are highly influential, communicated through official statements and state-sponsored national branding.

After ten years in government, the new establishment views post-apartheid South Africa as a success story, as it slowly overcomes the damage done to the psyche and fabric of society by apartheid and colonial domination. President Thabo Mbeki has said: '… gradually, step by step, we are progressing towards the achievement of the historic goal of the eradication of a centuries-old legacy of colonialism, racism and apartheid.'[15] Mbeki has repeatedly referred to this legacy, directly and indirectly, suggesting that it provides the context for evaluating the gains the state has made and justifying future plans.

The pride in the maturing of post-apartheid South Africa is reflected in the celebration of existing heroes and the recognition of new ones. This recognition takes tangible form in the renaming of streets and towns after anti-apartheid heroes, the creation of a new honours system, state funerals, and the construction of a Freedom Park, a venue being built to celebrate national heroes.[16] The mood is reflected by lawyer and columnist Christine Qunta in the observation: 'As Africans, the ability to choose our own heroes is in itself an act of liberation. Our history is replete with instances of leaders being foisted on us by outsiders for their benefit …'[17]

The new establishment takes great pride in the government's macroeconomic policy. The fact that the finance minister, Trevor Manuel, took top place on the ANC's list of delegates at its

50th congress in Stellenbosch in 2002 is indicative of the weight of the support behind GEAR.[18] This commitment is surprising, given the expectations in 1994 that the emerging establishment would pursue a left-wing programme, influenced by its socialist alliance partners.[19] Since 1996, when the delivery department, the Reconstruction and Development office, was closed down and GEAR introduced, the establishment has moved steadily to embrace free-market orthodoxies and privatisation. This dramatic shift from liberation-style party to mature constitutional democracy is celebrated by the establishment. But it does require government to play down certain failures of policy that would otherwise mar the picture. Thus while government talks about poverty, it has been accused of doing little to ascertain where its policy and implementation failures have made the poor poorer, and stifled opportunities for economic growth for unskilled labour. Dr Wilmot James, an executive director of the social cohesion and integration programme at the Human Sciences Research Council (HSRC), argues: 'I think the ANC is a smug organisation ... The quality of debate is poor and the ability to hold the executive to account is underdeveloped.'[20]

Certainly, in its presentation of South Africa, the establishment is defensive of the image of the country as a functioning democracy that offers lucrative investment opportunities. It believes that this image requires that it attempts to downplay negative reports about the country, to preserve the good news version. It tends to lash out at critics whose scrutiny might pierce the veil of optimism to reveal weaknesses.[21]

Thus the new establishment's consciousness of its achievements so far also expresses itself in sensitivity to criticism from the media, commentators, and the opposition. This leads to persistent tensions, particularly between government and the media, and to a lesser extent between government and the business sector. Some media workers insist, in their defence, that government communication is the main problem. *Sunday Times* editor Mondli Makhanya argues that 'government communication is atrocious .... They haven't worked out their message.'[22] However, government spokespersons frequently make statements that suggest that they believe at least some in the media are influenced by negative political agendas in their reporting and are intent on stigmatising Africans in particular.[23]

The new establishment sees itself as something of a champion of the developing world in the post-Cold War era, with international relations embodied more in the persons of former president Nelson Mandela and his successor Mbeki than in foreign ministers. Once branded a terrorist, Mandela maintains a consistent position as international statesman, speaking his mind on matters of principle, such as the Iraqi war, his views beamed round the world by the international media.[24] But his contributions mirror his personal perspective rather than that of the new establishment, which falls in line behind Mbeki.

Mbeki's NEPAD programme, co-authored with other African heads of states, thrusts South Africa into centre stage of efforts to bring about a better deal for Africa generally. Through NEPAD, the new establishment has global ambitions for 'humanity as a whole'. Mbeki has said: '... we shall ...continue to strengthen economic and other forms of cooperation ... in pursuit of Africa's development, our own national interests and the interests of humanity as a whole... we shall continue to challenge a pessimism that expects Africa to fail ... and the undeclared doctrine of collective punishment against all Africans that seems to come into effect when our leaders stumble.'[25] Combating Afro-pessimism is seen to be a key responsibility, as is finding 'African solutions for Africa's problems'.[26] The Africa Institute's Dr Eddie Maloka argues: 'South

Africa's agenda is pan-African and Renaissance ... I'd say we are doing fairly well, promoting democratic institutions (and) development. Our commitment has radically changed the way people see Africa.'[27] But not everyone is so sanguine. Prof Wilmot James suggests: 'NEPAD is the old dream repackaged. The younger leadership is giving it greater momentum but there is still the same mix of characters, which could drag it down.'[28]

James's comment illustrates the sorts of problems inherent in the attempt to leapfrog from new democracy to mature world leader. By portraying the new South Africa as a principled global player, the new establishment opens itself to criticism over the government's 'quiet diplomacy' towards Zimbabwe. This comes from across the spectrum. Left wing activist Patrick Bond argues: 'Avoiding full-fledged democracy in Zimbabwe appears to be in the South African rulers' narrow interests, then and now, if merely because of the danger of the demonstration effect.'[29] John Kane-Berman of the SA Institute of Race Relations writes: 'These tepid criticisms are outweighed by de facto support for Mugabe on the big issue .... The ANC government, in short, has no moral objection to the behaviour of a sister party that employs violence to stay in power when facing an actual or prospective defeat at the polls.'[30]

A weak public stance on Zimbabwe is part of an uneasy balancing act in South African foreign policy in which a highly principled line on human rights issues is sometimes at odds with attachments and solidarities which derive from past loyalties, present power realities, and (perhaps most importantly) the need not to look like a cheer-leader for Western concepts of human rights. The government has been criticised for its support of 'pariah states' such as Libya, Cuba, and (Saddam Hussein's) Iraq. It supported the nomination of Libya to chair the United Nations Human Rights Committee.[31]

The new establishment is highly defensive at criticism of these alleged inconsistencies, which are rooted in the pre-1994 struggle against apartheid. Solidarity with African leaders against European criticism is also considered a non-negotiable principle.[32] But critics suggest that this undermines NEPAD. Patricia de Lille, leader of the opposition party, the Independent Democrats, argues: 'In Africa – if you look at Burundi, Rwanda, DRC, Nigeria, and NEPAD – we have done generally well. But Zimbabwe undermines all of our progress. The ANC must begin to get rid of its tendency to run foreign relations based on who used to be our friends and be consistent and principled on world issues.'[33] Human rights activist and commentator Rhoda Kadalie suggests: 'What is more worrying is how President Thabo Mbeki and the Foreign Affairs Office are scurrying about trying to give legitimacy to a dictator who should be consigned to the dustbin of history.'[34]

At the same time, government is promoting trade by taking a lead role in negotiations between the developed and developing world on trade and tariff tasks. Former trade and industry minister Alec Erwin admitted that South Africa has a difficult task, but is proud of the opportunities new free trade treaties are creating. The new establishment emphasises the success of the drive to develop South Africa as an export-driven economy, with increased manufacturing potential.[35] Enthusiasm for trade has considerable support. IDASA's Richard Calland argues: 'A lot of South African companies have found Africa a tremendously accessible market to penetrate. Why not? They are thriving. The democracy has given business a wonderful opportunity which they have taken.'[36] Other commentators are similarly optimistic in this regard. They track the new opportunities opening up globally, as South Africa engages in free trade agreements, breaking new ground for local exporters. The International Marketing Council (IMC) and the

Proudly South African campaign are a major thrust to generate goodwill locally and internationally towards South African goods.[37]

On an international level, the new establishment has locked horns with the NGO and community-based organisation (CBO) anti-globalisation movements. The 2002 Earth Summit in Johannesburg defined its approach; government marshalled high levels of security to protect delegates from demonstrators outside the conference precinct. The arrest of some demonstrators further drove a wedge between government and civil society generally. The ANC depended on civil society, locally and internationally, to sustain itself in the struggle against apartheid. Now its relationships with international and local NGOs and CBOs are marked by mutual suspicion and sometimes outright hostility. 'Since August 2002, when we marched at the World Summit on Sustainable Development, it seems the government took us as a threat,' said former ANC activist Maureen Mnisi, chair of the Landless People's Movement in Gauteng.[38] The executive director of the South African NGO Coalition (SANGOCO), Abie Dithlake, argues that 'South Africa is locked in an economic plan that has failed to deliver on its promises ... government's policy (is) to serve the interest of the rich, abandoning its constituency by the wayside'.[39] Tebogo Mashota of the Anti-Privatisation Forum argues that 'the MPs in parliament represent their pockets, not the people'.[40]

The tension between the ANC's former supporters in the NGO sector is particularly evident in the debate over HIV/AIDS and the delivery of services to the poor. Led by president Mbeki, the establishment has failed to attend to the pandemic speedily, only agreeing to the roll-out of anti-retroviral drugs as late as August 2003. Mbeki's questioning of whether HIV caused AIDS, and the foray into dissident AIDS politics, was not challenged by the new establishment, although it appears that, privately, many have been distressed by his approach. It severely undermines the credibility of the new South Africa. Anglo American vice president for corporate affairs Kaizer Nyatsumba says: 'How anybody can stand back and watch people die in such numbers? If it were the National Party government there would be a chorus of complaint about them not doing anything. Now our own government is sitting there doing nothing. When they appear to do something, they drag their feet.'[41]

The reason behind Mbeki's failure to acknowledge the source and danger of HIV/AIDS is open to speculation. However, it could be argued that his rejection of accepted scientific modes of thought could be linked once again to concerns about racism and Afro-pessimism.[42] Mbeki's own pronouncements reveal a consciousness of a racial stereotype which he feels obliged to reject with contempt – the image of Africans as diseased and promiscuous. 'And thus does it happen that others who consider themselves to be our leaders .... demand that because we are germ carriers and human beings of a lower order that cannot subject its passions to reason, we must perforce adopt strange options, to save a depraved and diseased people from perishing from self-inflicted disease,' he said in an address at Fort Hare in 2001. He has elaborated on the theme in later speeches.[43] Essentially HIV/AIDS damages South Africa's success story and the new establishment wishes to downplay the effect it will have on the country's future. Stockbroker Andile Mazwai suggests: 'HIV/AIDS is quite interesting. Even in its severe forms it doesn't destroy. It's a big negative, no doubt about it, but perhaps we all believe this Hollywood apocalyptic scenario. Let me not underplay it, but no, it won't destroy the economy. All the numbers say it should, but all those forecasts have been wrong so I don't trust them. There is resilience – it damages but not kills.'[44]

After decades of apartheid and colonialism, it is not surprising that the establishment believes that racism and race-based inequality are still the primary problems in South Africa. What is more, it believes that government must play an interventionist role in minimising racial imbalances and protecting individuals and groups from racism. This has motivated affirmative action legislation introduced after 1994 in an effort to change the complexion of the workforce, in both the public service and the private sector.

The inclusive philosophy of a 'rainbow nation', coined in the first five years after apartheid by Archbishop Desmond Tutu and widely used by Mandela to describe a new diverse society, was the establishment approach in the early years of the new democracy. Most observers agree with Philani Magwaba, editor of the *Pretoria News* (and formerly of the Zulu-language newspaper *Isolezwe)*, who argues that 'Mandela has done a great job in unifying people across the racial divide.'[45]

But since the ANC's Mafikeng National Conference in December 1997, the rainbow nation has given way to a new thesis, espoused and promoted particularly by president Mbeki. His 'two-nations approach' divides South Africa into a 'poor majority' and a 'rich minority' which happen to correspond to the black and white racial segments of the population. Despite some furious counter-assertions, this diagnosis is used to justify BEE. The new establishment claims this is intended to redistribute wealth more equally among race groups within the commercial sector, as well as being a strategy to draw more formally disadvantaged people into the mainstream economy.[46] The establishment sees this as pivotal to the success of the new South Africa, with the business sector now becoming the vehicle for racial reparations. Critics like Rhoda Kadalie and John Kane-Berman argue that the policy enriches an already established (black) elite.

Critics cite two other matters as evidence that government has abandoned the poor. It has opposed a reparations lawsuit aimed at holding major multinationals responsible for supporting apartheid[47] and has dragged its feet on paying compensation to apartheid victims who testified before the Truth and Reconciliation Commission (TRC). Most claimants are both poor and unemployed and thus unable to engage in BEE transactions. To critics across the board it seems that race-based solutions to inequality are now being endorsed by the new establishment for well-positioned black business people but not for the poor.

The establishment puts its weight behind efforts to make the economy and society generally more racially representative. Government officials often use the rhetoric of the fight against racism as justifications for policies, and there is constant pressure for racial representivity. However, it is easier to talk about solutions to racism than to implement them. Government has considered dropping affirmative action in some sectors to attract skills that were locked out of the economy by affirmative action.[48] Indeed, race-based government actions create equity problems, as demonstrated when the trade union Solidarity campaigned against Telkom's Khulisa offer of shares to formerly disadvantaged South Africans. It argued that the parastatal was discriminating on the basis of race and Telkom was forced to 'clarify' its stance by indicating the share offer was open to all South Africans, so as not to been seen to discriminate against whites.[49]

Story 2: The emergence of the (black) patriotic bourgeoisie

Out of the changes wrought by the new government has emerged a fast-growing, patriotic black bourgeoisie. This sector probably more than any other grouping has experienced the most dramatic increase in quality of life over the last ten years, both materially and in terms of ongoing opportunities. Its members have been able to move into positions made previously inaccessible to them by apartheid, and engage in society through the professions, commerce, the NGO sector, the media, and the public service. Affirmative action, affirmative procurement and BEE have facilitated their movement into leadership positions.

It is likely to be true that in post-apartheid society, the symbolism of black advancement is important. Vuyo Mvuko, SABC political editor, observes, 'When I go home to Port Elizabeth to see my family and the people in the neighbourhood I was brought up in, I am a role model. For younger people, people who see me on TV, I am a role model. There's hope in a black person in this country, I can see it for myself. Even though people may be poor they have dignity – they are no longer in a helpless, hopeless state.'[50]

The patriotic bourgeoisie is a broad grouping, but essentially what it has in common is an urban-based, middle-class lifestyle and prospects. Significantly, its members owe their change in lifestyle to the new establishment and are thus fiercely patriotic and loyal to it, and complement it.[51] Reg Rumney observes, 'Mbeki wants a patriotic black middle class. Established business is edgy about state intervention and hasn't embraced BEE properly. Black business has played a lobbying role here.'[52]

The version of the new South Africa from this constituency is overwhelmingly positive, with a full endorsement of government's economic policies, and a pride in the way the economy is developing. Mpho Makwana, chief executive of the Marketing Federation of Southern Africa, says, 'There is enough for all of us in this economy. It requires all of us to locate what we do in the broader interests of being catalysts for a strong sense of national belonging. Any other route … will only undermine nation building …'[53]

Over the last ten years, black voices have increasingly dominated the editorial pages of the newspapers. There is an impatience that the shift of resources from white companies to black is not moving fast enough. For many, BEE is seen to be a solution to the inequity of income by race group, which is perceived to be part of the legacy of apartheid. Jethro Goko, editor of the *Herald* (Port Elizabeth), has written in *Business Day*: 'There must be an appreciation … that empowerment is much more than just a business issue. It is a complex, historical and socio-political transformation issue. To that effect, the process … should involve all stakeholders …. Only then can there be meaning and real progress.'[54]

In this context, there is little sympathy for the ideology of socialism, and full acceptance of globalisation and capitalism. Much of the criticism within the patriotic bourgeoisie is about how the government has not moved fast or far enough in implementing empowerment. Businessman Tiego Moseneke, CEO of New Diamond Corporation, says: 'The number of significant enterprises controlled by blacks is still negligible. I am quite unhappy with the progress. What deals there have been are often dependent on complex financial structures that leave little room for capital to accumulate for the blacks involved.'[55]

A debate has emerged within the patriotic bourgeoisie over the issue of enrichment (of the few) versus empowerment (of the many). *Business Report* deputy editor Sipho Ngcobo has written: 'Some of us who hail from the townships rub shoulders with many such (MK) veterans, and the truth (in plain English) is: They are starving while corporate lawyers, investment bankers and executives of companies use the MK brand to comply with legislation'.[56] This is the patriotic bourgeoisie's in-house version of the debate over BEE referred to in the previous section.

The patriotic bourgeoisie strongly supports NEPAD and Mbeki's role in international affairs, believing that he is a champion of African nationalism, and that the era for new opportunities for Africa has dawned. There is concern about South Africa's poor image abroad, and a tendency to blame the media and the opposition for this negative portrayal. The view here, too, is that the media deliberately seek out black corruption in fulfilment of their own agenda. Richard Calland comments sympathetically: 'Middle-class people are always complaining about corruption, always complaining about the rule of law. In fact, South Africa's rule of law is bloody strong. For example, in Latin America and Asia the courts are extremely corrupt and much litigation is settled by wallets, not lawyers. It's a question of who can pay the judge enough. There may be some intellectual disingenuity here, but by and large South Africa has a court system that is fair and democratic and honest.'[57]

The upwardly mobile classes believe that government is delivering on its 1994 election promises and that the slower than expected pace must be seen within the context of the legacy of apartheid. There is criticism of government, but it is modified by an understanding that sometimes government does not communicate its successes as effectively as it could.

Story 3: The left becomes disillusioned

In 1994 COSATU and the SACP entered into government as part of the new ruling alliance, with the former general secretary of the labour movement, Jay Naidoo, in cabinet, spearheading delivery to the poor. Since then the left has lost its footing in the ideological debate and its influence in government. Many of its adherents are disillusioned with the new South Africa, although complex ties bind most left wing activists to the ANC and only a tiny number of them are willing to brave existence outside its fold. Tony Ehrenreich, secretary general of COSATU Western Cape, observes, 'There is a lot to be grateful for. The one thing is that the peaceful transition to democracy should always be appreciated. The fact that there is some rolling out of services, and whether it's lighting in informal settlements, the building of houses, telephones, the restructuring of the labour market, all those things are positive measures for working families.'[58] But positive views from this constituency get little coverage – indeed the general flavour of comment from this quarter is critical.

The left draws its adherents from the unions, the NGO sector, the SACP, and the more radical social movements. Their views tell a story of disappointment at the new South Africa, because, it is held, the poor have become poorer. The issue is racially charged because the majority of these poor people are black and, as a result, this constituency generally has sympathy for president Mbeki's 'two nations' diagnosis.

But the left also believes government's 1996 GEAR policy represented a betrayal of socialism and is a proven failure. COSATU's Zwelinzima Vavi has said: 'None of the promises made by GEAR have been realised. It promised us growth of up to 6 per cent, yet the economy has only grown slower than our population. We were promised employment creation of 270 000 jobs a year, and yet what we have seen is the destruction of over 500 000 jobs .... GEAR promised us redistribution – this has not happened. The only distribution we have seen is that of misery!'[59] GEAR is also widely regarded as a crucial milestone in the redefinition of the relationship between COSATU and the ANC. 'We have lost our influence,' says Tony Ehrenreich. 'The alliance no longer functions properly.'[60]

The unions and other left-leaning organisations have mobilised support against privatisation, a key government policy, and opposed government in a number of other areas, including public service staff policy, welfare, education, and AIDS. The far left generally no longer feels any allegiance to the ANC and criticism is sometimes extreme. On HIV/AIDS, economist Patrick Bond has said, 'The ANC as a party – dominating the society – is too frightened of a tyrannical leader to stand up and call, "murderer!"'[61] But this is not simply a fringe opinion. The chairperson of the South African Medical Association, Kgosi Letlape, has asked: 'Is our AIDS policy a form of euthanasia? ... (perhaps) we are all involved in genocide.'[62]

Part of the disappointment comes from within the left itself. Many avowed socialists shifted into capitalism almost overnight, as opportunities arose. Thus the former union office-bearers such as Marcel Golding and Cyril Ramaphosa are now multi-millionaire entrepreneurs. They have been accused of abandoning both the philosophies that drove them ten years ago, and the organisations from which they came. The gulf between them and those who remained behind in the unions is immense, and the labour movements are the weaker for their loss. The left naturally sees government's creation of a black bourgeoisie as a threat to its influence. Trevor Ngwane, an active member of the anti-privatisation forum and champion of the leftist 'social movements', has written: 'Without detracting from those 27 years in jail – what that cost him, what he stood for – Mandela has been the real sell-out, the biggest betrayer of his people. When it came to the crunch, he used his status to camouflage the actual agreement that the ANC was forging with the South African elite under the sugar coating of the Reconstruction and Development Programme. Basically the ANC was granted formal, administrative power, while the wealth of the country was retained in the hands of the white capitalist elite, Oppenheimer and company. Mandela's role was decisive in stabilising the new dispensation; by all accounts, a daring gamble on the part of the bourgeoisie.'[63]

Rather than identifying with parties and formal politics, many of the left work with poor and needy people, through NGOs and social movements, and see first-hand misery and poverty in the new South Africa. This leads to added criticism of economic policy and the values espoused by the political and commercial elite. It believes that government is protecting the rich, and not the poor, and the symptoms of this approach are greater poverty, crime and disease.

The left is also critical of NEPAD, to a lesser or greater degree, because they fear that it will be a pact between governments and big business, and that it will exclude civil organisations and the labour movement. In response to government solidarity, as demonstrated at the Earth Summit, the left is forging ties with international anti-globalisation movements, seeking strength in partnerships with civil society, rather than in government. Trevor Ngwane has argued that 'it is important for us to link up with (the international NGO movement). This is the movement of the millennium .... That sort of solidarity can be very powerful in terms of keeping you going through pauses in the struggle.'[64]

Some indication of the depth of disillusionment on the left is shown by the notable tendency to look to the constitution for guidance on issues of principle, rather than to the president or the executive. HIV/AIDS activists and the anti-armament lobby have used the judiciary and constitutional court in attempts to force policy changes. More and more, the left is casting itself in the role of opponent to government policy, despite being partially in government through the alliance. Michelle O' Sullivan, the director of the Women's Legal Centre, says, 'We know that the Treasury and the Reserve Bank say that the fundamentals are in place but the consequences of economic policy in South Africa have been a loss of jobs, lack of social development and infrastructure, and the increase of HIV/AIDS. Life is getting a lot worse for a lot of people. From what we see at work from our client base, there is a sense of hopelessness.'[65]

In their anger and despair, some organisations have gone so far as to break the law to prove a point, using anti-apartheid tactics such as hunger strikes and demonstrations. On its website, the anti-AIDS Treatment Action Coalition (TAC) says: '... the TAC leadership is being continually reminded that there is a limit to the patience of people confronting their own mortality. Government cannot dither any longer .... Every delay is measured not in inconvenience, but in death and suffering.'[66] It is unlikely at this stage that the social movements themselves will emerge as a new opposition. Nevertheless, as TAC leader Zackie Achmat has argued, 'government must know that this issue is going to hurt it at the polls ... I hope they don't want to see political funerals, very large ones during an election campaign. And this is the thing they will face from us if they don't move – of that there is no question. We'll use every legal means at our disposal to ensure that people get treatment.'[67]

Many commentators foresee a split in the ruling alliance at some point in the next 20 years, along ideological lines, with the left forming the kernel of a new, black-led opposition, which could effectively challenge the ANC. However, the current left partners – COSATU and the SACP – are too weak and compromised to be able to make a political stand independently of the party at the moment, and are unlikely to in the near future.

Story 4: The (white) liberals win some, lose some

'Liberal' remains a dirty word to the establishment, even in the new South Africa. This seems odd in light of the fact that liberal philosophy informs the constitution and is in tune with many of the developing trends of society. The most clearly defined, mostly white-led, liberals are the Democratic Alliance (DA), but many other people, in the media, academia, the professions, business, and NGOs, espouse aspects of liberal policy.

In general terms, the liberals, a political minority, gained hugely in 1994 through the establishment of the constitution which nailed down liberal tenets as the basis for all law, in particular through the Bill of Rights. At odds with Afrikaner nationalism, and the apartheid state before 1994, they made large strides through the influence they had on the new constitutional order.[68]

The other stimulus for this constituency was seeing the new government abandon socialist ideology and adopt a neo-liberal economic policy. DA MP James Selfe says, 'We could not have done better if (former DA spokesman on economic affairs) Ken Andrew had been finance minister.'[69] Given that many liberals were fearful that once in power the ANC government would pursue a policy of state intervention in the economy, this was a welcome development, putting market-friendly principles at the centre of national development.

However, liberals hit a major stumbling block in the new South Africa. Firstly, the increasingly nationalistic government demonised criticism by liberals of developing government policy, typifying it as racial spite. Where liberals felt they had policy and advice to offer, they found themselves locked out of national debate and typecast as resentful whites or unpatriotic blacks. The refusal by government to accept criticism from without makes it difficult for opponents to engage on national issues. Possibly the starkest example is Mbeki's refusal to brief the leader of the official opposition, Tony Leon, on matters of national importance. But apartheid's racial legacy may have stacked the game against liberal politics. Kaizer Nyatsumba opines, 'The black electorate is not going to take the DA seriously, it's seen as a white party. But I wish we had a strong viable opposition because then we would see the best of the ANC.'[70]

Liberals found themselves at loggerheads with the new establishment over the question of race. They were generally happy with the notion of the rainbow nation and largely supportive of the Mandela approach to the race question. However, liberals are now almost defined by their rejection of president Mbeki's 'two nation' diagnosis, saying it is divisive and inaccurate. Liberals believe Mbeki's approach represents a step backward. The DA's James Selfe suggests: 'We've had partial success in building a reconciled nation. Mandela's experience was so much more positive. Compared to Zimbabwe we are well off; compared to Mandela's offering, less so.'[71]

Whereas the liberals would have South Africans develop their own relationships across the colour bar on the basis of equality and freedom, the establishment prefers government intervention to transform the racial composition of society. Liberal journalist Patrick Laurence says: 'The parties are locked in a state of reciprocal antagonism, even though their declared objective is the same: the establishment of a society in which race and colour are accidents of birth to which no overriding importance is attached.'[72] But a counter-view is represented by Dr Charles Villa-Vicencio: 'The racism debate is important because it reminds us of the residual anger of black people. Too many white South Africans fail to understand it as such. Some people prefer not to.'[73]

In a similar vein, while many liberals appreciate the need to redress the legacy of apartheid, they find themselves at odds with affirmative action, procurement and BEE, on the grounds that it will deepen racial divisions. They are also concerned that BEE will water down the performance of some of South Africa's best companies and institutions. Journalist Francois Ebersohn argued: 'Market commentators ... believe that the political risk of investing in South Africa has increased in the process, even if only in terms of perceptions about investing on the JSE.'[74] But the new establishment fiercely rejects suggestions that empowerment imposes business costs. Interestingly, the Oppenheimer's Brenthurst initiative attempts to resolve this conundrum by recommending tax cuts for business in exchange for BEE deals, suggesting that the redistribution of wealth could become a goal, rather than a burden, and ultimately a more cost-effective process for the commercial sector.

Liberals believe government has a fixation with intervention, and fear a creeping ANC hegemony. They prize individual freedoms, whereas the new establishment, with its nationalistic thrust, emphasises the good of the community, and in that context, of the majority. Many liberals argue that government has failed to create an environment conducive to the development of small and medium enterprises. Commentators tend to support this position. Reg Rumney argues that 'government's attempts at mobilising small business have come to nothing'.[75] A frustration with administrative barriers and government's failure to find practical solutions to regulatory questions heighten criticism even more.

Liberals are supportive of Mbeki's NEPAD programme, but remain sceptical of its ability to succeed completely. Sociologist Prof Lawrence Schlemmer, while describing NEPAD as a 'shaky and unreliable vehicle', nevertheless concludes that 'it's the only game in town'.[76] Liberals are very critical of Mbeki's inability to resolve the crisis in Zimbabwe and of acts of solidarity with pariah states. However, there is a deep appreciation of government's efforts to expand trade opportunities internationally.

Since at least 1994, liberals have become increasingly aware of the dangers of poverty to society, and with that, concerned about the increase in crime and the deterioration of perceived standards in the public sector, particularly in education and health. They find Mbeki's stance on HIV/AIDS incomprehensible, and its core immoral, as millions of people are dying as a consequence of the delays in treatment. They are worried about corruption in government, and concerned that South Africa might be repeating many of the errors made by an earlier generation of newly liberated African states. This makes them vocal critics of government's mistakes, further alienating them from the new establishment.

Story 5: The Afrikaners lose power, face guilt but gain a new identity as a minority

Of all ethnic groups, the political transition in 1994 was hardest for the Afrikaners, as overnight they lost power and completed the transition from ruling nation to minority group. Over the last ten years they have had to face a number of testing – and for some humiliating – experiences, the most significant being the Truth and Reconciliation Commission's exposure of human rights abuses under apartheid. They do not speak with one voice as a group, but defined linguistically and culturally form a unique community within South Africa.

There are a number of Afrikaners, such as political commentator Dan Roodt, who are pessimistic about the future of Afrikaners in the new South Africa. This group feels betrayed in its own country, and is deeply concerned about the lowering of standards of delivery in the public sector, in particular in education.

Roodt says, 'I think we are heading for some serious problems in the not too distant future, similar to what Zimbabwe is experiencing at the moment. There is a false consensus in South Africa that has been fostered by the old leadership who found one another in Kempton Park, as well as by the media, both locally and internationally. On the ground there is no consensus, a lot of tension and therefore the potential for conflict.' He adds: 'To the extent that Afrikaners represent a nation unto themselves and a definite ethnic group – and I am still waiting for evidence to the contrary – there is no place for them in South Africa any more. Intuitively most Afrikaners understand this, and they tend to keep a very low profile, not daring to speak their language in public or make themselves too visible.'[77]

The marginalisation of the Afrikaans language is painful to this group, as is the blame they have had to shoulder for apartheid. Crime inflames discontent even further, and the frequency of farm murders hardens attitudes. Many Afrikaners believe that farm murders are the result of a politicised hatred against them of young rural black people. The Freedom Front successfully campaigned to have the slogan 'kill the farmer, kill the boer' banned as hate speech. Its leader, Dr Pieter Mulder, has said, 'We are not dealing with a theoretical propaganda slogan. In real life farmers are murdered every day. A person who chanted the slogan during a specific gathering can regard this as justification for such murders.' Many of the more disillusioned Afrikaners emigrate, or simply withdraw from national debate.

However, there Afrikaner groupings who believe the new South Africa has provided an opportunity to shake off the mantle of Afrikaner nationalism and explore a new, freer cultural identity, more in tune with the modern world. These Afrikaners tend to be of a younger generation and feel happier about engaging with a broader society, in particular through business. There is also a small grouping, typified by Marthinus van Schalkwyk, leader of the now defunct New National Party (NNP), who initially sought co-operation and now has accepted amalgamation with the new establishment, arguing that there is more to be gained from co-operation than traditional opposition.

Story 6: The marginalised remain marginalised

In this study the poor are not represented as speaking for themselves. They have little access to the media, and are the subject of research and reports by academics and commentators rather than filling roles of opinion-makers themselves. Almost every constituency or sector speaks on their behalf, indicating that life for them in the new South Africa is extremely tough and it is not getting any easier. The unemployed make up about 36 per cent of the population and live below the breadline, on the margins of society.

CAN THE CONSTITUENCIES OF OPINION BE SYNTHESISED INTO ONE OPINION ON HOW SOUTH AFRICA IS DOING?

Apartheid and its consequences

All the constituencies of opinion engaged with apartheid South Africa until 1994, and have that as a common reference point for the last ten years, a foil against which they judge South Africa as a developing society. However, of the constituencies reviewed, some sectors enjoyed a privileged position under apartheid and others were disadvantaged, meaning that different groupings bring different apartheid realities to bear in their comparisons with latter-day South Africa. Many who lived a privileged life under apartheid, and were used to a high level of government service, are dismayed at what they perceive to be falling standards of public life in the new post-apartheid South Africa. This dismay is particularly prevalent in some business circles, and among older generations of Afrikaners. Those who lived in poverty or as political activists, and now have been able to move into business, public service or professional positions, see life as much improved. This sentiment is most pronounced among formerly disadvantaged people who have taken up positions in government, black business, media, the professions, and NGOs.

Government, some elements of black business, labour, and the NGO sector see the legacy of apartheid as holding South Africa back and continuing to undermine the implementation of plans for social and economic development. They also see the legacy of apartheid in the simmering tension between whites and blacks, and the racial and economic inequality in society. They feel that government's failure to deliver services in some areas must be assessed against that inheritance. Similarly, there are other groupings within the NGO sector, opposition political parties, and the labour movement – and among commentators – who believe government uses apartheid too conveniently as an excuse to explain away its own failings.

There may be an intellectual trend among Afrikaners to deny culpability. Historian and Afrikaans commentator Prof. Hermann Giliomee has suggested that apartheid – for all the accusations of immorality – also contributed to the building of the South African economy, so thus had a mixed legacy. He has argued: 'It's quite possible that if we didn't have apartheid we would have been a much happier, richer society and forgiving society. But it's also possible that we might have been much poorer, much more divided, much more at each other's throats … (perhaps no other system) would (have created) a white electorate (that) felt protected or developed enough to be able to hand over power to the new rulers.'[78] Among those who have responded to the thesis with outrage is another Afrikaner commentator, Max du Preez: 'There is a tendency amongst some intellectuals and writers to start blaming the past again, to blame the settlement and the constitution. You saw it with Hermann Giliomee and his book. The assistant editor of *Die Burger* has said that we have a task to show to the world that apartheid wasn't all that bad. I think that is even more dangerous – if you can't change the future, change the past.'[79]

A tough neighbourhood

All constituencies are fully conscious of the difficulties posed to South Africa by being on the southernmost tip of a troubled continent plagued by wars, poverty, and underdevelopment. The government and, to some extent, the business community are most acutely aware of the danger of the general sentiment of Afro-pessimism limiting South Africa's opportunities abroad, and thus fully support president Mbeki's NEPAD plan, which aims to bring new optimism to Africa, and change the way the world interacts with the continent. Already the economic and political collapse of Zimbabwe has damaged South Africa's economy, scaring off foreign direct investment. Economist Mike Schussler of T-sec has argued: 'Had it not been for the crisis in Zimbabwe, SA would have grown by 3,5 per cent instead of 3,2 per cent last year …. the crisis has led to a weakening of the rand, higher inflation and higher interest rates.'[80] Business tends to support government's sensitivity to negative reporting of South Africa, fearing that this might influence investment opportunities, tourism, and the building up of international trust. This has not spared business several withering personal attacks from president Mbeki when he has felt high profile business leaders have been unpatriotic, Afro-pessimist, or even racist.

The other grouping that is most concerned about Afro-pessimism, but from a different perspective is the media, in particular the foreign media. Many foreign correspondents have first-hand experience of disasters and poor political judgment in other African countries, and are constantly testing South Africa's performance against these other worst practices. In some instances the weight of negative reporting about Africa and South Africa ratchets the tension up between the government and the foreign press corps. When *Guardian* correspondent Chris McGreal wrote, 'I can't shake off this haunting figure of 35,000. For 35,000 is the number of children estimated to have been born infected with HIV last year because President Thabo Mbeki said they could not have the single shot of a drug that could have saved their lives for just a few pence,'[81] the government responded with indignation. Lindiwe Mabuza, South African ambassador in London, held up South Africa's successes in an attempt to temper the negative impression created by McGreal's piece.

THE ECONOMY

In most assessments of how South Africa is doing, the economy is the starting point. The centre is generally supportive. Government, opposition political parties, commentators, some NGOs, and the mainstream media believe that fiscal restraint and macroeconomic stability represents its greatest achievement. Reg Rumney suggests that 'the steady economic growth record of plus-minus 3 per cent is pretty good going in light of boom-bust experiences elsewhere. We have weathered some particularly spectacular storms. We have done pretty well on the macroeconomic side.'[82]

However, some point out that macroeconomic policy is a blunt instrument. These critics feel that government has failed to create an environment conducive for genuine entrepreneurship, small and medium enterprises, or the informal sector to flourish. Political analyst Moeletsi Mbeki has said: 'We are not creating entrepreneurs … we are taking political leaders and politically connected people and giving them assets which, in the first instance, they don't know how to manage.'[83] Free Market Foundation director Eustace Davie has suggested that the government should 'abolish monopoly protection of the inefficient state industries and sell them … Reduce the crime rate to improve the ability of South Africans to ply their trades freely, reduce taxes and government consumption expenditure, which are too high for a developing country.'[84] Wilmot James argues that 'there is a lack of strategies to create jobs and the job summit won't necessarily help'.[85]

Some have pressed for a more social-democratic policy thrust. Dr Eddie Maloka of the Africa Institute argues: 'There is a need for some innovation for delivery – a kind of New Deal approach to the problems.'[86] All constituencies express concern over unemployment. On the left, some believe the government's economic policies have further marginalised the poor. Stellenbosch University's professor emeritus Sampie Terreblanche argues that 'some people do not realise the seriousness of the poverty problems, the comprehensiveness of it and its dynamic character'. He believes that restoring macroeconomic stability was necessary, but that 'the burden of this was shifted on to the poor and that macroeconomic stability could also have been restored by higher taxation and higher spending on poverty'.[87] Terreblanche argues that the gap between rich and poor has widened, and the prospects for the bottom end of the pile worsened.

Some have found this analysis compelling. Richard Calland suggests that 'the democratic transition for (the poor) has been a cruel illusion. And the big question is what will that do for the longer term social conditions of the country?'[88] Pressure from those who accept Terreblanche's analysis may partly account for the increase in welfare expenditure announced by president Mbeki prior to the 2004 election. The most extreme criticisms of economic policy come from the radical left. Patrick Bond argues: 'What with standards of living of the majority of South Africans having dropped so far since 1994, and class apartheid plus commodification of everything advancing so rapidly into every area of life and nature, "governance" has been reduced to dancing to the tune set by the piper in Washington.'[89]

GOVERNANCE AND DELIVERY

There are mixed responses to whether government has delivered. Many people understand the difficulties of providing services across the board to so many needy people in such a short space of time. Government feels that it is doing a fair job, under the circumstances, and many other commentators feel that it deserves some credit for what it has achieved. However, labour, NGOs, opposition parties and to a lesser degree the media are fiercely critical of lapses in delivery and governance. The DA's James Selfe argues that, 'government successes are often not unalloyed successes. So many of these, where there was so much publicity, were short lived. For example, there was great publicity around Kader Asmal's water programmes. However, in many cases the taps have been stolen and the water pipes no longer work. The success doesn't have a shelf life.'[90] Evidence suggests that business is also concerned, although it tends to be more restrained in its criticisms.

Within this critique, there is an intense scrutiny of the extent to which government fulfils its political mandate and the spirit in which institutions such as parliament are run. Economist Tony Twine argues that 'political parties all pull at half power and not all the fault is theirs; it's always they way the system works'.[91] Among business people, NGOs, labour, commentators, and the media there are concerns that the ruling party, with its powerful majority, could abuse its position in an endeavour to control society too tightly. Many commentators were critical of the floor-crossing legislation, which enabled MPs to defect from their political parties, despite being elected on the proportional representation principle. Parliament's failure to support the Standing Committee on Public Accounts (SCOPA) during the arms deal inquiry is also regularly cited as a disappointment and a betrayal of the constitution.

However, one of the overriding assurances cited by all constituencies through this inquiry was the confidence many had in the constitution and the constitutional court to ensure the protection of individuals and minorities from the abuse of political power. This was particularly felt by Afrikaners, liberals, the left, and the media. The commitment to the values of the constitution is felt profoundly by this sector, and it is to those values that they are committed to, rather than to the values of a political movement or a president. Among black business and government, the constitution is important, but patriotism is interpreted as a positive attitude to government rather than loyalty to the constitution.

VIEWS ON THE PRESIDENCY

What most assessments of South Africa include is a reflection on the two presidents who have steered the country from 1994. While Mandela is widely supported by all as heroic statesman, Mbeki is viewed more sceptically. His support lies in government, black business, and some elements of the media, who feel his intellectual analysis provides the tools with which to understand South Africa's dilemmas, and his solutions reflect the vision to promote South Africa's success. However, there are others who are highly doubtful of his vision and highlight his personal failures, in particular his views on HIV/AIDS, where he is alleged to have slowed government's response to the pandemic which in turn has cost lives. The other point on which he is persistently criticised is his failure to stem the tide of human rights abuses and economic collapse in neighbouring Zimbabwe. Both are quoted not just as failures in their own right, but as examples of his flawed leadership. This criticism emerges particularly from the opposition parties, labour, the NGO sector, some commentators and elements of the media, and, most vocally, from the social movements.

Some suggest there has been an excessive concentration of power in the executive. Kaizer Nyatsumba argues, 'Mbeki has accumulated a lot of power around himself in the ANC. ANC members used to have real power on the ground, but the power to choose provincial premiers, for example, has gradually been taken away from the ANC .... People should be allowed to contest the presidency.'[92] In tune with Afro-pessimism, there is underlying worry among some observers, usually not fully expressed, of what might happen if Mbeki changed the constitution to allow for a third term. In this instance, worst-case examples of what has happened in other parts of Africa compound fears. By late 2004, president Mbeki had shown himself at pains to address these concerns by declaring that it was no part of his or the ANC's plans to seek such changes. However, the removal from office of deputy president Zuma in mid-2005 as a result of his financial adviser's conviction on fraud and corruption charges opened wide public divisions in the ANC, replacing concerns about the concentration of power with concerns about its fragmentation.

RACE

Ten years down the line, South Africa is not a racially integrated society, as some would have hoped. *The Guardian*'s African correspondent, Rory Carroll, has argued: 'This is not how it is supposed to have been. Apartheid gave way nine years ago to the rainbow nation, a miracle of forgiveness and normalisation aided by an emerging class of blacks who wore the same clothes and drove the same cars as middle-class whites. Most blacks stayed poor and marginalised but at least this affluent vanguard would stake claims in the white northern suburbs.'[93] However, many analyses see race barriers being replaced by class barriers, as the income of black people increases in proportion to their new access to the economy and paying jobs. Immediately after 1994, whites and blacks came together to endorse the new South Africa, a mood captured in the moment of former president Nelson Mandela's appearance at the 1995 Rugby World Cup in a Springbok jersey, to the exaltation of the crowds. However, the widely accepted notion of a rainbow nation, endorsed by almost all sectors of the population, has faded as the business of the redistribution of wealth and positions has taken its toll on goodwill.

There is a sharp divide between constituencies who support Mbeki's 'two nations' analysis and those who still yearn for Mandela's inclusive approach. The ANC, black business, and the emerging black middle class tend to be supportive of Mbeki's view. The left fuse Mbeki's approach with class analysis. They see South Africa's divide increasingly as a class rather than a racial issue, but argue that racial divisions still underpin the class hierarchy.

Other commentators, media, some NGOs, and business tend towards a more liberal perspective. They generally suggest that race relations on the ground are much improved. They suggest that South Africans should be allowed to manage their own relationships, free from government prescription. Over time, they believe, society will naturally become more integrated. These constituencies tend to blame government for stirring up racial hatred and fixating on racial incidents, giving them undue prominence to accentuate white racism towards blacks. Within that context they are critical of the way affirmative action has been implemented, fearing that concerns with race undermine merit in appointments and entrench racial identities. However, this is seldom articulated publicly, as it is considered politically incorrect.

OPTIMISM

Pessimism and optimism are difficult to measure as they are subjective responses which, among other problems, tend to shift according to the events of the day. 'Is the glass half empty or half full?' is the classic question when commentators review the same set of indicators and come to differing conclusions. There are groups within South Africa who deliberately set out to generate optimism, fearing that the pessimistic outlook of many citizens is becoming a negative force in its own right. In his state of nation address in 2001, Mbeki quoted as an example of heroism a book by a young white South African, Ivan Booth, called South Africa: reasons to stay. Booth cites all the good things about living in South Africa, and his approach has been complemented by other good-news publications and pronouncements, which review South Africa as a success story. These boosters raise morale generally and make for refreshing reading, but essentially do not reflect any particular constituency of opinion, although they are endorsed by government, hungry for a better image.

CONCLUSION

The differing views of the new South Africa ten years down the line cannot be reconciled into one version of 'how we are doing'. Perspectives are framed by both the sense of identity held by individuals and groups and the access they have to opportunities. These identities are in part derived from a cultural or linguistic group, from profession, socioeconomic status, or geographical position. South Africa is an unequal and varied society, meaning that different groups have had different levels of success in defining themselves in relation to the new South Africa and expressing their commentary on how it has developed. An aging retrenched Afrikaner civil servant in Centurion is naturally going to see society's progress in a very different light to a young black executive in Sandton, although they may live a mere 20 kilometres apart in comparable houses, with similar incomes. To add to the complexity, a domestic worker in Mpumalanga and an MP in Cape Town may feel exactly the same rush of patriotism when Bafana Bafana scores a goal, despite living in very different economic circumstances, with vastly different expectations of what the new South Africa has on offer.

However, despite that, there is virtue in attempting to establish broad trends of thought from different sectors that are emerging in national debate, as they help to frame opinions generally. Documenting the different perspectives on how South Africans view the democracy ten years on is one way of measuring national confidence and mood. It is heartening to realise that society tolerates a range of different perspectives, even if there is an increasingly strong African nationalistic perspective motivating the new establishment at the centre.

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PART 2

Can the social fabric sustain growth?

CHAPTER 2

FAMILY, YOUNG PEOPLE, AND THE SOCIAL FABRIC

Peter Delius

It is common cause that South Africa needs to achieve much higher levels of growth – around 5 to 6 per cent per year over a long period – if we are to reduce the backlog of unemployment and poverty that threatens the stability and future of our society. Clearly this outcome will only be achieved through appropriate economic policies, committed political leadership, entrepreneurship and the positive power of markets.[1] But more rapid growth also depends on a range of social factors that can either provide foundations for growth or undermine it.

The quality of the social fabric is not a 'soft' issue. Economic growth is, in the long run, heavily dependent on social institutions such as families, schools, and peer groups. The institutions that make up the current social fabric must be able to produce an expanding number of people who have the skills and values to drive future economic growth, not least by sustaining the social fabric itself. A recent World Bank study emphasises:

> ... the importance of human capital and the transmission mechanism across generations. The formation of human capital, which should be thought of as the entire stock of knowledge and abilities (general and specific) embodied in the population, plays a leading role in promoting economic growth.[2]

What determines the quality of the social fabric? One critical factor is the effectiveness of the institutions and processes of socialisation. Every society requires that new generations learn the values and competencies required to be able to function effectively within it.[3] In all societies the family, the school, and peer groups play critical roles in this process of socialisation.

If the key institutions and processes of socialisation are dysfunctional, the prospects for economic growth are likely to be compromised. South Africa's history has done great damage to families, schools, and peer group structures. This chapter will explore both the nature and extent of that damage and the effectiveness of the attempts since our first democratic election in 1994 to reconstruct and repair the ravages of our racist past.

The processes of socialisation also contribute to wider social realities that condition individuals' ability to profit from their skills and to sustain productive values. Fractured families and pathological peer groups produce criminals and high levels of violence. Security of life and property are fundamental to growth.People at all levels of society, from a hawker on a street corner to a businessman driving home in his luxury car, need to have confidence that they can enjoy the fruits of their labour and invest in the future. If not, South Africa risks choking small-scale enterprise, savagely escalating the costs of doing business, discouraging investment and losing precious skills.

This chapter opens with a brief consideration of the nature of socialisation in pre-colonial African society. It discusses the ways in which these changed under the impact of conquest, colonial control and racially structured industrialisation. The social challenges which confront our fledgling democracy are deeply rooted in these historical processes of change. The heart of the chapter explores the deeply compromised contemporary reality of families, households, and peer groups that arise out of this past. Lastly, the chapter evaluates the effectiveness of policies and practices put in place by the ANC government to deal with the grave damage done to the social fabric in the long years before 1994.

RIPPED AND TORN: CONQUEST, COLONISATION, AND THE FABRIC OF AFRICAN SOCIETY

As in most communities around the world, the family and peer groups both played a crucial role in socialisation in pre-conquest African society. But in pre-colonial African societies peer groups played an especially critical role in socialisation. This was most marked in the majority of societies that practised initiation but it was also true in those societies – most notably the Zulu – which did not.[4] Child and adolescent peer groups taught skills, duties, and values. This phase of learning was often brought to a close by the rite of initiation, which marked a key moment in the transition to adult status and responsibilities.[5]

Part of what made these forms of socialisation remarkable was their effectiveness at allowing expression to both adolescent sexuality and to a violent masculinity in ways which did not threaten the wider social order.[6] Pre-colonial African communities were highly adept at reconstituting rebellious adolescents as responsible adults.

Pre-colonial socialisation patterns were vulnerable to the social changes associated with urbanisation and industrialisation, particularly because industrialisation was based on migrant labour. The removal of increasing numbers of men from rural families for expanding periods of time meant that rural communities were stripped of an important element underpinning generational authority and defining masculine roles. Similarly, the peer group socialisation system was vulnerable to the recruitment of young men and women to migrant labour and the spread of Western education.

From the 1970s, the migrant labour system itself began to decline in the face of changing economic and political conditions. In rural areas, mounting unemployment and a dwindling flow of remittances deepened poverty, worsened malnutrition, and hastened social decay.[7] For instance, the already high rates of illegitimacy and female-headed households in rural communities rose still more steeply.[8]

Urban African family structures were also deeply damaged from the very start of African urbanisation by migrancy, influx control and segregationist housing policies. All these factors militated against the establishment of stable marriages and families in the cities. From the 1930s onwards a large proportion of births in townships was out of wedlock. It became increasingly common to find an unmarried mother living with her children and possibly her own mother (either a widow, or herself an unmarried mother one generation back).

In 1999 a survey of Soweto revealed that a little over 40 per cent of the households living in old council housing were female-headed. A further 12 per cent were 'three-generational', in other words, parents living with daughters and grandchildren.[9] With men avoiding marriage, the responsibility for raising children fell more and more on the shoulders of unmarried mothers and grandmothers.

The patterns of migrancy and urbanisation in South Africa were probably even more corrosive of peer group socialisation than they were of the family. In the countryside, peer groups were regulated by the older generation as part of the process of growing up. In the cities, they were unsanctioned and beyond the control of parents. After all, youth could expect no obvious adult inheritance (of land, cattle, or authority). This meant that there was little incentive to respect parents, who were unable to offer their children material security, and whose dignity was constantly under threat from racial discrimination.

The urban gangs were made up of youths suspended in adolescence; they represented a separate subculture pitted against their parents and, indeed, the world. From early on, some were regularly involved in antisocial criminal activity, such as mugging or raping ordinary township residents. This is not to suggest that all these youth gangs were violent and criminal. Most were local defensive networks offering neighbourhood youth some protection from assertive bigger gangs. They may have indulged in petty crime, but generally avoided armed robbery or extortion.

While the family and the peer group fractured under pressure, many parents looked to schools as an alternative source of adult authority. The availability of schooling expanded rapidly under Bantu Education from the mid 1950s. From the end of the 1960s until the mid 1970s, the government, now concerned about a shortage of skilled and semi-skilled labour, ploughed resources into urban secondary schooling. For example, the number of high schools doubled and the number of secondary students trebled in Soweto during this period.[10]

From the 1950s to the 1970s, schools did offer a measure of regulation and supervision during the day for those children who were able to stay in school into adolescence. Despite overcrowding and the limited resources and political bias of Bantu Education, most urban high schools operated reasonably efficiently until the mid 1970s.

The 1976 youth uprising ushered in a new era of political youth culture which gathered momentum in the 1980s and had a profound impact on the authority of both parents and teachers. Urban secondary schooling virtually collapsed. The older generation, as far as the youth were concerned, had disgraced itself through its passivity towards the apartheid state. More than ever before, youths taught each other and disparaged the advice of elders. Meanwhile the distinction between gang and school culture, which had sharpened in the 1970s, blurred considerably in the 1980s. Though 'comrade' activism probably had its roots in the school system, it represented in many ways a hybridised culture of the youth gangs and more disciplined school activism.

While the 1976 Soweto revolt had limited repercussions in rural areas, politicised youth organisation penetrated parts of the countryside, especially in the northern Transvaal, in the 1980s, with equally dire consequences for the standing of both teachers and parents.[11] It is likely that the image of youth spinning ever deeper out of control was one that haunted NP and ANC negotiators alike after 1990 and concentrated their collective minds on the need for a negotiated settlement.

It should be emphasised that changes in family structure and generational revolt are far from uniquely South African phenomena. They are among the most prominent characteristics of the social history of the 20th century world.[12]

But in South Africa, profound changes in family structure and in the forms of peer group socialisation happened in a context of violent repression and revolt, which was in turn associated with growing economic marginalisation for most African families and the withering of formal schooling under intense political pressure. It is hard to think of a set of circumstances more likely to unravel the social fabric.

FALLING APART OR UNDER REPAIR? : THE SOCIAL FABRIC SINCE 1994

After 1994, the ANC-led government confronted these grim social realities bequeathed by decades of racist misrule and economic mismanagement.

As we have seen, the 'household' is one of the primary institutions of socialisation and plays a vital role in constituting the fabric of society.[13] But by the 1990s households were threatened on several fronts in their effectiveness as units of socialisation. The available statistical data is not able to fully capture these dynamics or to plot changes over time, but it does provide some sense of the scale of the problems.[14]

The scale of the challenge

Over half of South Africa's population live below the poverty line. In its 2002–3 report on social security, the Human Rights Commission stated that 3,15 million households had incomes inadequate to provide for basic needs such as food or shelter, that 2,7 million households had no source of income, and that 3,1 million households had an income below the poverty line.[15] Poverty of this sort causes long-term hunger: approximately one in five children between one and nine years old in 2002 were stunted, and one in ten was underweight.[16]

The composition of households also displays the deep scars left by South Africa's peculiar history. In urban areas, according to the 1998 South Africa Demographic and Health Survey, 63,8 per cent of households have male household heads and 36,2 per cent female. In non-urban areas, 50 per cent of households have male and 50 per cent have female household heads; of all households in South Africa, 58,1 per cent have male and 41,9 per cent have female household heads.[17] According to Key Indicators of Poverty, the poverty rate in female-headed households stands at 69,9 per cent compared to only 43,6 per cent in male-headed poor households.[18]

Forty-eight per cent of women of reproductive age have never married. Only one third of women aged 15–49 years are married.[19] Forty-eight per cent of women gave birth before they turned 20 years old. Only one third of children live with both their parents. Nearly 35 per cent of children under 15 live only with their mothers, while 3 per cent live only with their fathers. Twenty-five per cent of children live in a household with neither parent present. In urban areas, 17 per cent of households have foster children compared to 34 per cent in rural areas. The higher rate of foster households in rural areas is partly the result of unmarried mothers or working parents sending especially their young children to their grandparents for care.[20]

These statistics must give rise to grave concerns about the effectiveness of the family as an instrument of socialisation. And questions of the effectiveness of processes of socialisation are made still more pressing by the preponderance of young people in the national population (see figure 1) and the high levels of unemployment (see figure 2) which they experience. Generations that grow up with limited parental support and excluded from the world of work are likely to be very poor transmitters of the human capital required to sustain a modern economy.

Figure 1: South Africa's population by age, 2001[21]

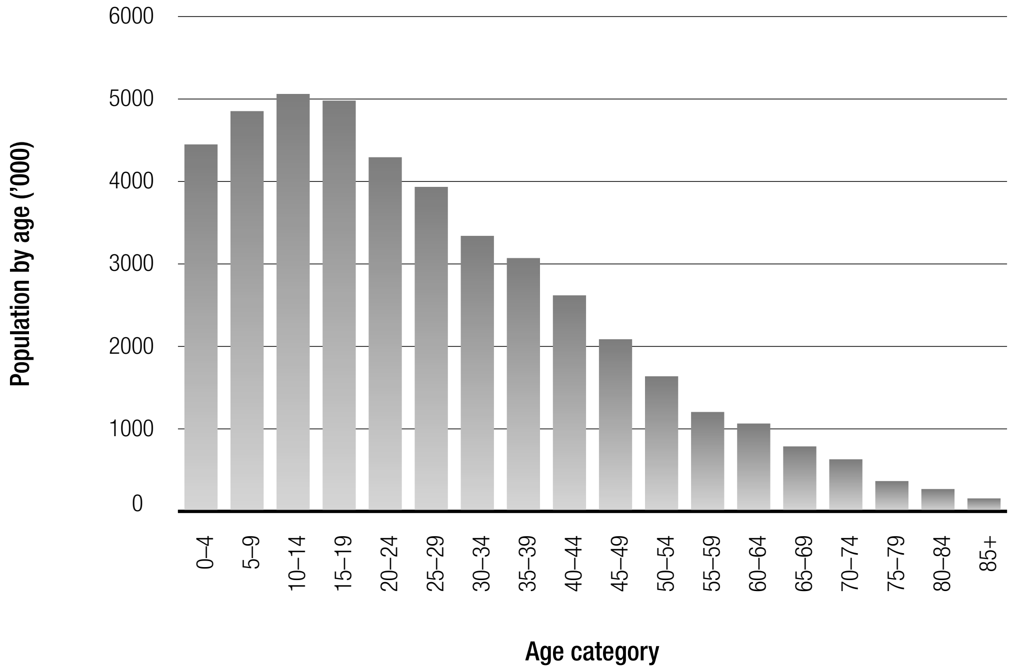
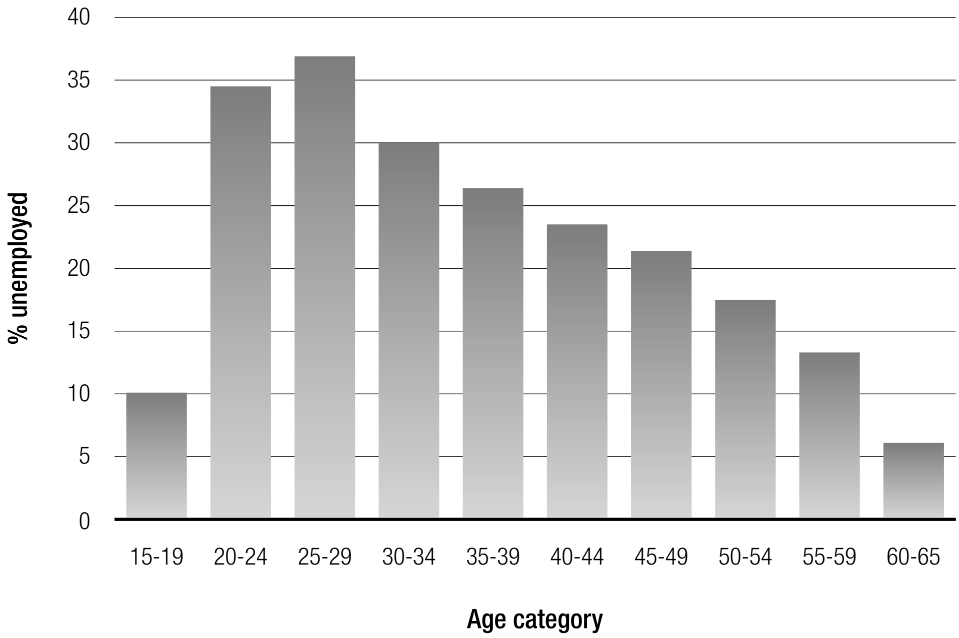


Figure 2: Youth unemployment, 2001[22]



The democratic government has introduced a number of measures designed to ease the pressures on the social fabric and to bolster households' capacity to care for children.

Feeding the children

Combating malnutrition was established as a key priority of the new government and a comprehensive approach to the issue was developed. The most visible state programmes are the national nutrition development programme and the primary school nutrition programme. There are, however, serious question marks over the effectiveness of these initiatives. School feeding schemes are not accessible to children younger than school age despite the potentially very damaging effects of malnutrition in children younger than six years old.[23] They have also been dogged by corruption, waste, and mismanagement.

In 2001 the directorate of nutrition commissioned a survey of 149 schools randomly selected from the 15 000 schools participating in the feeding programme. This survey identified a range of problems. For instance, in three provinces, over 30 per cent of schools missed 25 or more feeding days. Food quality was sometimes inadequate. Many schools had unhygienic storage facilities. Thirty per cent of the sample's schools did not have water on site. Managerial deficiencies, theft, and wastage were also ongoing problems.[24]

But probably the most important problem of all is the lack of effective monitoring of the impact of the programmes. It is vital to institute systematic and far-reaching growth monitoring of children to be able to measure the impact of nutrition programmes.[25] But this has not taken place and as a result it is not possible to make a credible assessment of the value of the programme. It is possible that vast quantities of money have been spent with little real impact on the nutritional status of the population. It might also be argued that more narrowly targeted programmes would be a more effective use of resources.

Nevertheless, there is some evidence that the feeding programmes have encouraged school attendance and the concentration levels of pupils. They may well have had positive educational results.

Reforming social welfare to strengthen the family

A major area of policy development and implementation with considerable potential positive impact on households was social welfare. The ANC-led government inherited a racially skewed, badly regulated, corrupt, and inefficient system. It set about both overhauling the system, and paying particular attention to the position of children.

The child support grant, a major new commitment to social welfare, was introduced in 1998. Initially only children below seven years old qualified for the child support grant. Children not living with a caregiver, for example AIDS orphans and street children, were unable to access state-sponsored assistance because they had neither a caregiver nor their birth certificates. The same problem arose for child-headed households because these children were not in a position to initiate an application process. To begin with, a lack of knowledge about the new grant prevented a high number of caregivers from claiming child support or maintenance. In 2002, an estimated 75 per cent of eligible children below seven years old did not get their child support grant.[26] Major drives were launched in both urban and rural areas to make households aware of the availability of these grants and, according to the Human Rights Commission, the number of eligible children accessing the child support grant had risen to around 75 per cent by March

2003.[27] In the same month, the government amended the regulations regarding child support grants and provided for a phasing-in of an extension of the eligible age to 14 by 2005.[28]

The government has also confronted the consequences of high levels of illegitimacy and the widespread failure of fathers to accept financial responsibility for their children. Under apartheid, the maintenance system functioned so poorly that it helped to vindicate perceptions that parental financial obligations were not the main option for child support.[29] Non-custodial parents rarely contributed to the cost of child rearing and legal procedures to enforce payments were costly. The democratic government has sought to emphasise parental responsibility and to enforce maintenance obligations on parents, but it is extremely difficult to gauge what practical effects this has had. The magistrate's courts are responsible for maintenance appropriations and the department of justice does not have the capacity to keep statistics of maintenance cases because this would require contacting every magistrate's court in South Africa.[30]

The government has gone beyond practical measures and attempted to spell out a vision of the role of the family in society. The government's policy focus is not only on poverty and the needs of the poor but also on strengthening family life. According to the white paper for social welfare, for instance, the family should ideally care for, nurture, and socialise its members, and the goal of state social welfare programmes should be to facilitate family-centred, community-based social development.[31] This emphasis on the role of the family does not, however, grapple with the question of how the fractured and diverse family forms of South Africa can be expected to play this role. It also ignores the critical question of the impact of HIV/AIDS on family forms and resources.

Moral regeneration

In October 2000, then deputy president Zuma addressed the national assembly on the necessity of restoring the moral fibre of society and, in so doing, launched the Moral Regeneration Campaign. The campaign was described as a major intervention to regenerate the values that would hold families and communities together. The deputy president invoked ubuntu and the African Renaissance as antidotes to the ravages of colonialism and apartheid.[32] He stressed that the 'the values we teach our children will determine the kind of society we will have in future', and pointed out the importance of starting to teach values in homes and in schools.[33] But the Moral Regeneration Campaign has not taken off.

The Moral Regeneration Movement was reported in 2002 to be developing a moral charter which will provide the fundamental principles of the campaign.[34] From formulations and initiatives thus far (and the current travails of the former deputy president) it is difficult to see how this programme will develop from high-flown rhetoric and moral exhortation to having any real impact on either the wider fabric of society or on the structure and dynamics of households.

HIV/AIDS

The government has undertaken a range of initiatives to rebuild the social fabric by supporting families and households. Unfortunately, the effectiveness of some of these initiatives remains open to question. But what is not in doubt is that whatever has been achieved in this realm is in danger of being undone, indeed overwhelmed, by the scourge of HIV/AIDS – an area in which the government has failed to exercise effective leadership. This sorry saga does not need to be retold. What does deserve attention in this chapter is the impact of the disease on domestic tensions, and household resources and structure.

Households affected by HIV/AIDS are poorer than non-affected households and they are more dependent on non-employment sources of income. Affected households spend less on food, which potentially contributes to malnutrition. In addition, affected households allocate a higher proportion of their resources to food, healthcare, and household expenses than to education, clothing, or transport. Affected households have fewer savings and borrow more money than non-affected households. Poor HIV/AIDS-affected households spend about one-third of their monthly income on health care. Death, too, is a great financial burden, usually costing even more than healthcare during the acute stage of illness.

Living conditions and limited access to infrastructure and services in poor households render it particularly stressful to look after terminally ill people. Sixty-eight per cent of caregivers are women, of whom 73 per cent are over 60 years old. Seven per cent of caregivers are children, usually girls under the age of 18. In more than 40 per cent of households, the primary caregiver takes time off from formal or informal employment or schooling, adding to the loss of income or contributing to the under-schooling of girls.[35] The strain of coping with AIDS causes families to split.

AIDS also contributes to migration, which raises costs both to households and to society in general. Children are sent away, mostly to grandparents in rural areas or to live with other families.[36] People return to their families when they are ill, or travel to provide care and assistance to ill family members. The migration of HIV-infected people has budgetary implications because government transfers to provinces are allocated according to the number of people diagnosed there and not those actually living there.[37]

The social and economic damage suffered by HIV-affected households impacts on the development, health, and nutrition of children. In affected households, children are more likely to be exposed to opportunistic infections such as tuberculosis or pneumonia. They have to face prejudices related to HIV, and prejudices related to poverty.[38] Often AIDS orphans have been caregivers to their dying parents. The psychological impact on children witnessing their parents' suffering and death is devastating, and is exacerbated by the fear caused by not knowing who is going to care for them in the future.

But probably most damaging of all for the social fabric, and most threatening for the future of the society, is the growing number of AIDS orphans. There are already 300 000 maternal AIDS orphans (children whose mothers have died),[39] and 660 000 children under the age of 14 years have lost one or both parents to AIDS.[40] Unless effective steps are taken to limit the growth of the epidemic and to treat those infected, the number of orphans will grow very rapidly over the next six years. Current projections predict 2 million AIDS orphans in 2010.

Orphans are vulnerable to extremely high rates of poverty. They are very vulnerable to abuse and violence. Orphans are sucked into crime or prostitution or forced into child labour.[41] If there are no caregivers available, child-headed households form and children end up on the street. AIDS orphans have reduced opportunities for education, limited access to healthcare and welfare services, and no access to social security. 2002 figures suggest that about 3 per cent of households are headed by a person less than 18 years old.[42] But this proportion is set to expand exponentially as death rates from the disease gather momentum. The previous deficiencies of South African families as instruments of socialisation pale into insignificance in comparison to the challenges that will confront child-headed households.

At present it appears that the government has yet to face up to the enormity of the social problems, which loom on the horizon. The government considers family and community care for AIDS orphans preferable to foster care and statutory residential care. There appears to be little appreciation of the body of social scientific research which shows how local networks of support and reciprocal aid have been eroded over a long period by mounting unemployment and poverty.[43] In addition, the stigma attached to AIDS is a deterrent, and extended families are proving to be reluctant caregivers to children orphaned in this way.[44]

A national conference in June 2002 outlined a plan of action to work in a co-ordinated way to ensure children the right to food, shelter, social services grants, and education. But the extent to which this document translates into practice remains to be seen.[45] Overall, it appears that in the case of care for orphans, as in the case of prevention programmes, the verdict currently is too little, too late.

The ability of households to socialise children effectively has been placed under enormous strain over the last hundred years and more. HIV/AIDS threatens to do even greater violence to this critical element in the social fabric. There is yet little evidence that government has policies and practices in place adequate to the enormity of the challenge it faces.[46]

PEER GROUPS, GANGS AND YOUTH ORGANISATIONS SINCE 1994

As we have seen, the peer groups that played such a critical role in shaping and controlling youth in pre-colonial African societies did not survive the impact of migrant labour and urbanisation. From the 1940s, gangs increasingly filled the social void that this created in the cities. In the 1980s and early 1990s, highly political youth organisations and militant action gave direction and meaning to the lives of many young people. But it is also important to recall that, throughout the period, a mainstay for many youths was the rather less sensational, and certainly less reported, outlets provided by religion and sport.

Since 1994, the ANC-led government has placed considerable emphasis on countering the influence of gangs, enhancing the appeal of more positive forms of peer group activity and giving effective expression to youth perspectives within the state.

The young paid a heavy price for the role they played in the struggle against apartheid. Their schooling was disrupted; they suffered, witnessed, and sometimes perpetrated acts of extreme violence. Many experienced detention and imprisonment. Generational authority was turned upside down in many areas, and young people shouldered burdens of responsibility for which they were not properly prepared or supported. The boundaries between gangsters and wider youth groupings were eroded. Commentators from all backgrounds feared that the consequence was a 'lost generation', unable or even unwilling to play a positive role in a new democratic dispensation.

Major research projects launched in the early 1990s concentrated on this issue and while the results were worrying, they were not quite as bleak as many had feared. It emerged that 'one in twenty (5%) of ... young people in South Africa were so damaged by their past that the only way youth programmes might reach them would be via the criminal justice system. This group had suffered and /or perpetrated violence, held extreme political and social views, were deeply alienated and seemed unable to connect with mainstream society at all'. A further 27 per cent were found to be to be in danger of slipping into this 'lost 'category.[47] These figures suggested the need for urgent steps to be taken to create channels back into the mainstream for many young people.

The grip of gangs

The constricting influence of pathological peer groups also needed to be loosened. The prevalence and influence of gangs is difficult to assess on the basis of existing evidence. It seems clear in the Western Cape that thus far attempts to curb their activities has met with little success. Since 1994 there has been increasing influence of international organised crime, including the Russian Mafia, Chinese Triads, and Nigerian drug lords. Part of the result has been that local gangs have become the 'front end' of foreign operations. This has probably contributed to the consolidation and professionalisation of gangs. According to the South African Police Services (SAPS) about 137 gangs operate in the Western Cape, with estimated membership of 80 000 to 100 000. Gangs are responsible for 70 per cent of crimes in the Western Cape.[48]

Their relationship with the wider community is complex. Groups such as People against Gangsterism and Drugs (PAGAD) in its heyday (1996) have embodied communities' anger about the extent to which gang members disrupt everyday life and threaten security.[49] But gang members' relationship with rest of the community in which they live is an ambivalent one. Money earned in gangs supports families and allows them to live 'glamorous lifestyles revered by many in the townships'.[50]

The impact of gangs on schooling is a particularly alarming dimension of their reach. A survey of crime and violence in 20 schools in the Cape Metropole and beyond, conducted by the Institute for Criminology at the University of Cape Town, offers some insight into the extent to which violence and crime affect the daily lives of the youth in the Western Cape.[51] The survey was conducted in 1998 in 'both primary and secondary schools selected from a representative sample of ex-model C, disadvantaged and peri-urban categories of school'. It showed: 'Drug abuse was a serious cause for concern in 90% of the schools, bullying and intimidation was reported in over 75% of schools, assault in 60% of the schools, gangsterism in 50% and rape in seven of the twelve secondary schools.'[52]

It seems unlikely that the influence of gangs is as pervasive outside of the Western Cape, although there may be pockets elsewhere – such as Hillbrow – which rival that region in terms of gang control. But it seems that significant elements of gang organisation and gang culture are to be found in other major urban centres – in particular, around Johannesburg.

Why do young people join gangs? The answers help us better to understand many of the weaknesses in the social fabric. First, gangs are perceived to provide youth with a alluring alternative to the often harsh realities of their own lives. For instance, research in Gauteng has shown that gangsters are important alternative role models for youth and that they both menace children outside schools and have established some presence within schools. The images of gun-toting gang members, driving fast cars, and abducting and raping women, featured in the enormously popular television series *Yizo Yizo*, which caused a furore when it was broadcast, were based on in-depth interviews with students and educators.[53]

Second, gangs to some extent developed in reaction to South Africa's inequalities. A racist past provides additional justification for crime in the minds of many of gangsters: 'I hate them [white people]. If you take it historically they are the cause of all this .... we know that the white settlers do have money ...' [54]

Next, young people join gangs out of a sense of entitlement. Gangsters interviewed in Diepkloof, Soweto in 1996 displayed a sense of entitlement to material wealth and felt that they should not have to seek employment. For others, gangs *are* a form of employment: 'Youth make a rational choice to go in the direction of criminality as a result of their frustration with the status quo. Their skill is violence and it has economic value to the gangs.'[55]

Then, sheer boredom makes the excitement of gang life attractive. The poor quality of education in many township schools exacerbates the problem, as does the lack of attractive sports and other extramural facilities in many poor areas.[56]

But while becoming an 'Amagent' or a gang member may for some be a conscious choice, for most it was rooted in deeper realities. 'Amagents' in Gauteng have told interviewers that violent and broken homes and poverty were the two key factors that had influenced their decision to become involved in crime. 'The picture painted by the majority of the gangsters was that of families riddled with tensions and conflict. The youngsters were often abandoned or kicked out of homes. Many experienced their parents separating or having to live with a step father or mother who rejected them.'[57]

It is difficult to assess the degree of influence and control of organised gangs outside the Western Cape. It does seem possible that in recent years, while formal gang structures may have become less significant, elements of gang culture and attitudes have seeped into wider youth culture, as evidenced by relatively benign phenomena such as fashion – many young South Africans want to dress like gangsters – to very grave problems, such as the way in which gangster attitudes towards women and sex have influenced township youth in general.[58]

Youth and religion

The fact that the world of the 'Amagents' holds a grim fascination for reporters and researchers alike creates the danger that that its influence on the youth can be exaggerated, and that other less lurid but more important dimensions to youth culture and experience may be overlooked or minimised. One crucial dimension is religion. For example, a study on youth by the Joint Enrichment Project (JEP) conducted in 1993 found that:

- 38 per cent of them were involved in church organisations or church choirs;
- 56 per cent of young women attend church once a week or more;
- 37 per cent of young men attend once a week or more;
- 53 per cent of the 16–20 year olds attend once a week or more; and
- 9 per cent never attend church / religious services.[59]

Other evidence corroborates the impression that religion is the single most important organisational influence in the life of South African youth:

- Gospel music was listed as the most popular form of music in the Youth 2000 Survey (44 per cent preferred gospel, followed by kwaito at 28 per cent and R 'n B at 22 per cent). Gospel was the most preferred music among African youth and the third favourite among coloured youth.

- Nelson Mandela was the most popular role model in the Youth 2000 Report, the choice of all race groups. Yet the gospel singer Rebecca Malope was chosen above Nelson Mandela as the most popular role model for young African women.
- The HSRC, Reality Check, and Youth 2000 surveys found that the number of youth involved in church youth organisation was significant.
- A finding of the HSRC Steering Committee for its 1994 youth project 'revealed that religion affects the social, familial, economic and political aspects of young people's lives, and it is not just seen as a body of metaphysical beliefs and practices'.[60]

Unfortunately these statistics do not tell us *how* the lives of youths are affected by church. They do not tell us the *extent* to which belonging to a church affects the goals and aspirations of youth, or whether the goals of religious young people are very different to those of young South Africans who are not church goers. These points are particularly pertinent at present as charismatic and evangelical churches appear to be winning converts amongst black teenagers.[61] The only religious categories in the 2001 Census that showed higher numbers in the youth category than the adult category were Pentecostal/Charismatic Churches, Other Christian Churches and No Religion.

A generation of young people who are drawn to Christianity in their teenage years rather than via the more traditional route of being baptised or initiated by parents may well have a distinct sense of 'Christian youth' identity. The nature of this identity is, however, far from clear at present, and considerably more research is needed to establish with any degree of accuracy both the extent and the impact of Christianity on processes of youth socialisation and identity formation in recent times.

One question that this material does raise, however, is the wisdom of attempts to entirely secularise school education. If religion is a critical alternative for youth to rather more malevolent models of behaviour it may be counterproductive to diminish its status in schools.

Indeed, the expanding role played by churches in formal education may well be an important good news story over the next decade. In the past ten years there has been a dramatic growth in private schools catering to poor black learners. The single largest category of these (46 per cent) is religious schools. It is possible to speculate that religious organisations and religiously based education may be providing a vital form of reconstituted youth socialisation in South Africa.[62] But further research is needed before this point can be substantiated.

Youth and sport

Following closely behind religion in significance is sport. The 1993 JEP study found that 32 per cent of the youth interviewed were members of sports organisations.[63] And while religion is a domain which is extremely difficult (and probably not desirable) for governments to shape and manage, sport represents an arena in which constructive intervention is feasible.

It is an uncontroversial assertion that that sport has a positive role to play in youth development. A 1994 HSRC report noted that sport encourages creativity, team participation, striving for achievement, a sense of belonging to a peer group, and the meaningful use of leisure time.[64] Sport development among the youth was deemed important enough to be included in the Reconstruction and Development Programme (RDP).[65] The 1998 white paper on sports and recreation argued that sport has important spin-offs for the youth. Children involved in sport learn valuable life-skills. Sport teaches children the value of teamwork, participation, and relating positively to their peers. Sport is a way in which young people, especially those from disadvantaged backgrounds, can develop self-esteem and a sense of achievement. Increased physical education leads to improved scholastic performance. And, of course, sport steers youth away from crime ('a child in sport is a child not in court').[66] In 2001, President Mbeki reiterated the importance of sport in youth development:

> Our society must make a collective effort to engage the youth in other meaningful and constructive activities that are not a mere distraction, but are important in themselves. Sport and healthy recreation belong among these important activities.

In sum, the government is fully aware that sport has an extremely positive role to play in youth socialisation. Active sports have health benefits that contribute to a child's overall well-being.[67]

It is also widely recognised that, under apartheid, there was 'an appalling lack of facilities, infrastructure and organisational structures [for] sport'.[68] Establishing sports facilities in disadvantaged areas is one of the key priorities outlined in the 1999 white paper on sport and recreation.[69]

The department of sport and recreation has by no means been inactive in these areas. But the extent to which the goals have been achieved is open to question. In May 2001, then minister of sport Ncgonde Balfour assured the national assembly in his budget speech that the Building for Sport and Recreation (BSR) programme would reach all the poverty nodes identified for intervention by the president over the following two years.[70] In February 2003, the minister announced that the BSR programme had been difficult to facilitate as the municipal authorities were beset by capacity problems.[71] Previously, the building of facilities had been paid for with RDP funds. The minister noted that these RDP facilities were already in a very poor condition. In order to counter the backlog, the BSR set aside R260 million over the following three years to provide basic indoor and outdoor facilities in priority areas.[72]

On the whole, the progress in building sports facilities in disadvantaged areas is not encouraging. As recently as 2003, the chair of the sport and recreation portfolio committee bemoaned the lack of facilities for the youth to partake in sport.[73] Gregory Fredericks, chief director of sport and recreation South Africa, told the portfolio committee in May 2003 that the issue of facilities had been a concern since 1994 and that recent studies had revealed a backlog amounting to R5 billion.[74] At a report-back meeting on constituency sports issues in 2003, MPs reported complaints about the lack of facilities in KwaZulu-Natal, the Eastern Cape and the rural areas more generally.[75] In his 2005 budget speech, the minister of sport and recreation, the Rev Makhenkesi Stofile, indicated that the budget for sporting facilities within the department of sports and recreation had been cut by 25 per cent.[76] Clearly much needs to be done and attention needs to be paid to questions of both of delivery and the maintenance.

Youth and politics

Another trend that emerges strongly from the various studies of the changing profile of youth has been depoliticisation: 'In the 1980's the street talk was about politics, now it's about sex, clothes, cars and more importantly money, careers and relationships.' The 'Born Frees' are faced with a different set of anxieties to the youth who where teenagers in the '80s: 'Rape, murder and child abuse as well as the danger of contacting HIV/AIDS have replaced political violence' in a context of poverty and limited job prospects.[77]

Ironically, however, the withdrawal of young people from politics has taken place in a context were the youth were seen, at least initially, as a vitally important political constituency – the assumption presumably being that youth in the democratic era would continue to be 'young lions'. Institutions were created to ensure that their interests were served and their voices were heard – particularly in policy-making processes. There are, however, grave doubts about the effectiveness of these bodies in a time when 'young lions' have been to a considerable extent replaced by an apolitical 'market segment'.[78]

The apex organisation for 'political youth' is the National Youth Commission (NYC). It was launched on Youth Day, 1996 with the goal of guiding public policy in relation to young people. It has, however, made a mainly negative impression. One of the NYC's tasks was the drafting of a national youth policy. The Youth Policy 2000 document (1997) was not widely circulated and has not been not widely utilised in the youth sector.[79] It has been argued that political bartering precedes the appointment of commissioners and that sectoral knowledge is secondary to party affiliation.[80] Further, the NYC works closely with formal organisations, which is a strategy of declining relevance as youth are no longer 'mobilised' into the traditional political youth structures. Outreach and dialogue are therefore largely limited to a closed circle of youth activists, many of whom have subsequently found their way on to national or provincial commission structures, while others wait their turn.[81]

The commission has also been the subject of much negative attention in the media since its establishment in 1996, with criticism focusing on the commissioners' high salaries, lack of financial control, and the general lack of visible achievements in youth development. The Mail and Guardian, for instance, has rated the NYC among the worst performing of governmental institutions.[82]

Some of the criticism of the NYC may be unfair. In 2001, the minister in the office of the president, Essop Pahad, was quoted as pointing out: 'It is not the Youth Commission's responsibility to organise young people, but the challenge of all political structures to organise youth. But youth organisations apparently disagreed, saying that the NYC was too preoccupied with periodic functions such as the June 16 celebrations and failed to create a clear youth development programme.' [83]

While the expectations of the NYC might be too high in some quarters it is nonetheless clear that it has offered little in the way of solutions to the pressing issue of how to construct effective way of channelling the youth into the mainstream of political and economic life in South Africa.

Youth and development

Perhaps the two most visible and potentially far-reaching youth development initiatives thus far are the Umsobomvu Youth Fund (UYF) and the national youth service. Both target what the government feels is the biggest problem facing the youth, that of unemployment.

The Umsobomvu Youth Fund (UYF) was created to act as 'a catalyst facilitating the creation of opportunities for youth employment and youth entrepreneurship by making investments that deliver effective programmes. Umsobomvu conceptualises and designs programmes and contracts suitable service providers for implementation.'[84]

The fund's equity was created from an R855 million levy paid to government when Old Mutual and Sanlam de-mutualised in 1999. The fund stood at R1 billion in 2003.[85]

Umsobomvu is essentially a development-financing institution, which facilitates and promotes the creation of jobs and skills development for South African youth.[86] It is not meant to act as a primary implementer of programmes for the youth and points out: 'Umsobomvu relies on others to do what they do best. Umsobomvu's role is to pull together existing resources and invest them in strategies that work.'[87]

It has not been possible to assess the success or impact of the fund in the youth sector. Given that the Umsobomvu Youth Fund is relatively new, no academic work or appraisal of the fund could be found.[88]

The RDP proposed national youth service as a programme to give young people structured work experience while they continued with their education and training.[89]

It is an initiative that has been a long time in the pipeline. In 1999 the white paper was finally submitted to cabinet and provided for the establishment of a national youth service unit within the NYC.

In the consultative process in 1997, which informed the Youth Policy 2000, young people apparently supported the idea of a national youth service. The policy document was supported by the ANC as well as the opposition parties and by the youth sector in general.[90] The national youth service was subsequently launched on the 28th of August 2004.[91]

There has been limited debate on the content or on the relative costs and benefits of such a scheme.[92] A leading youth sector analyst commented as follows in 2000:

> In America, enormous resources are pumped into service initiatives, and outputs are impressive. In Africa, experiences have been uneven: service initiatives in some countries (such as Malawi) produced young thugs who maintained the ruling party's grip on power, while in other countries (notably Botswana) the youth brigades were well-regarded. It is perhaps sobering to find that in the same year that South Africa's National Youth Commission produce a White Paper on service, the Botswana Brigades are being closed down. It appears that for service to really produce good results, they need considerable financial and human resources. Whether such resources are available for service in South Africa remains to be seen. [93]

CONCLUSION

Racially determined processes of colonisation, industrialisation, and urbanisation took a terrible toll on the core institutions of socialisation within African societies. The struggle to end the apartheid regime deepened the damage. As a result, the democratic order that was ushered in by the 1994 elections has inherited a social fabric which is in tatters. The capacity of the key institutions of households and peer groups to transmit human capital across generations, or to prepare individuals to acquire new skills, has been severely eroded. This reality has significantly negative, if difficult to quantify, consequences for economic growth. It also contributes to the conditions which lead to high levels of crime – and especially violent crime – which represent another key drag on economic confidence and performance.

Although it is doubtful that the depth of the damage is fully recognised by senior policy makers, the ANC government has made attempts to repair the social fabric. Child support grants, more effective enforcement of maintenance payments, and a campaign of moral regeneration have sought to support or reconstruct households.

A range of sporting and other initiatives have focused on creating possibilities for more positive forms of youth association and peer group socialisation.

But, as the body of this chapter reveals, while the effectiveness and appropriateness of these interventions vary, they do not match the scale of the problem as it stood in 1994.

Tragically, the unravelling of South Africa's social fabric has accelerated since then under the impact of an HIV/AIDS pandemic, which is further undermining the capacity of the society both to retain and to transmit human capital. Among the most pressing problems that the pandemic creates is a rapidly growing population of orphans who will need effective care if they are to become morally centred, emotionally stable, and economically productive adults. Failing this, they are likely to contribute to a deepening social malaise and a burgeoning criminality. There is little indication at present that the government has plans and policies adequate to this critical task.

What is certain is that measures to ensure the effective socialisation of children are essential to secure South Africa's long-term political and economic prospects.

It must be acknowledged that the reconstruction of households, families and peer groups is a notoriously difficult and slow job. This reality places even greater emphasis on the socialising institution, which has not been dealt with in this article thus far – the school.

Difficult as it no doubt will be, the government has a greater chance in the short term of ensuring that schools provide secure environments in which real economic and life skills are imparted to children, than it does of stitching together the wider social fabric.

James Gabarino, professor of human development at Cornell University, has argued that violent youths can be turned around by a good school experience. Pre-school programmes, which prepare children from low-income families for the social experience of education, have also proved effective in the UK and US. And programmes to keep older children off the street by keeping schools open longer and providing supervised homework and sport have also paid dividends.[94]

In South Africa one hopeful fact for the future is the considerable body of evidence, both anecdotal and case-study based, that education is viewed as a route to a better life among most South African families. This has partly been reflected in the significant learner migration since 1994 from former department of education and training (DET) (black) schools to former House of Assembly (HoA) (white) schools. Jane Hofmeyr of the Independent Schools Association of South Africa (ISASA) points out that 'parents, realising the importance of education for the life chances of their children, are making huge sacrifices to taxi them to schools far from where they live, often spending more on taxi costs than school fees'.[95] The educational effectiveness of these 'former Model C' schools is reflected in the fact that they produce a disproportionate percentage of African maths and science graduates. But perhaps equally important is their role in fostering a culture of personal discipline and achievement.

Another sign of the high value placed on educational achievement by black South Africans has been the rapid expansion of private schooling since 1990. Private schooling is now three times larger than it was then and caters mainly for black learners. Like the 'Model C's, private schools also create a context in which committed learners can seek refuge from contexts of social decay. The fact that 46 per cent of these private schools are religious also suggests a possible synergy with religion, which has been identified in the body of this report as a critical potential prop for social reconstruction.

The critical problem, of course, is that a considerable proportion of the country's youth remain in schools which under-perform educationally, are poor vectors of constructive social values and are bereft of sporting facilities.

The fact that the social fabric has suffered so severely over the past century and more places an even greater onus on government fundamentally to reform the education system to allow schools to become effective building blocks in the desperately needed process of social reconstruction.

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CHAPTER 3

THE EFFECT OF CRIME ON BUSINESS

Jeff McCarthy

There is little doubt that 'South Africa is now one of the most violent countries in the world. This trend is consistent for almost all … crimes of violence including rape and armed robbery. In the case of the latter crime too, South Africa has the dubious distinction of being the world leader.'[1]

It should not be surprising that South Africa's articulate and well-connected middle class is very vocal in its anxiety and insecurity about crime. It certainly suffers higher victimisation rates than most communities of any sort around the world, and it experiences far more victimisation than its counterpart middle classes in less violent societies.

Nevertheless, the suburbs are far from the main focus of crime.[2] The Medical Research Council's crime, violence, and injury lead programme provides a useful overview of victims of violent crime by age and population group.[3] Blacks accounted for the overwhelming majority of victims (79 per cent), with whites accounting for 4,6 per cent, coloureds 13,9 per cent and Asians just 1,7 per cent.[4] As Bernie Fanaroff, former director of the government's national crime prevention strategy, put it, 'The vast majority of violent crimes are interpersonal: young men killing young men.'[5] The South African Police Services (SAPS) report that in 87 per cent of murder cases the victim and perpetrator knew each other.[6]

So while there is no doubt that levels of crime have risen in suburban areas since the 1980s, it is also clear that violent crime remains concentrated in black areas with black youth the most likely victims and perpetrators. More than three quarters of the victims of these crimes in Johannesburg were African and the vast majority lived in the townships.[7]

Whatever their level of statistical risk, all South Africans run a daily gauntlet of crime that leaves many lives shattered. And, of course, crimes against individuals and households create patterns of costs and responses which do serious damage to the economy. The middle classes have some protection from the impact of crime through insurance cover and a range of other expensive resources, such as private security. For the poor, without these safety nets, crime can have catastrophic consequences. The consequences of the erosion of their hopes and the closure of avenues of opportunity by crime are difficult to measure, but cannot be other than profoundly detrimental to the economic dynamism of the society.

This chapter focuses on some equally important, and rather less discussed, implications of crime. Crime damages lives, and it damages households, but it also damages private sector businesses. These are the core engines of growth on which all South Africans ultimately depend. It is therefore worth looking in detail at which crime is doing to the private sector.

CRIME AND INVESTMENT

In a 2000 study of the constraints to growth and investment in South Africa, a little-publicised but comprehensive World Bank report underscored the critical role of crime in relation to business investment.[8] Detailed, structured interviews with a large sample of senior executives on the various factors constraining further investment and employment among large manufacturers revealed that crime was by far the leading deterring factor (outstripping, for example, wages, labour legislation, exchange rates, and tax rates by large margins). The study found that crime accounted for over 60 per cent of the decision to expand or not expand investment and employment in industrial businesses in Johannesburg. Specifically, the study found that:

> The top rankings by firms for intervention by local government were ... safety and security on the streets and maintenance of high ethical standards by local government officials ... Crime and theft were rated as the number one constraint to firm growth ... 83 percent of firms experienced crime in 1998 ... and crime and violence were ranked as the number one constraint to growth by about 95 percent of CEOs of large manufacturing firms.[9]

Early (unpublished) returns from similar surveys in other cities and economic sectors suggest that the investment and employment impacts of crime may be even higher elsewhere in South Africa.

Crime facts

In order to make sense of the debate on the impacts of crime on economic growth in South Africa, it is necessary first to reflect briefly upon the facts on crime in the country, and subjective reactions to these facts. Table 1 below presents the SAPS data on crime prevalence.

Table 1: SAPS statistics on crime in South Africa

A comparison of the 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, and 2003 April to March increase/decrease in the crime ratios(per 100 000 of the population), related to specific crime categories (only those categories of crime 20 >= per 100 000 of the population annually)

Ratio per 100 000 of the population												
		1994/5	1995/6	1996/7	1997/8	1998/9	1999/0	2000/1	2001/2	2002/3	2003/4	
Contact crimes (crimes against the person)												
1	Murder	66,9	67,9	62,8	59,5	59,8	52,5	49,8	47,8	47,4	42,7	
2	Rape	115,3	125,9	126,7	126,2	118,3	122,8	121,0	121,1	115,3	113,7	
3	Attempted murder	69,1	67,9	70,4	68,4	70,4	65,4	64,4	69,8	78,9	64,8	
4	Assault with intent to do grievious bodily harm	555,8	563,7	570,4	570,4	566,3	608,1	630,2	589,1	585,9	560,7	
5	Common assault	516,0	520,5	500,3	489,0	485,0	538,9	569,7	584,3	621,6	605,7	*
6	Robbery with aggravating circumstances	218,5	195,0	163,0	177,5	220,6	229,5	260,3	260,5	279,2	288,1	*
7	Other robbery	84,2	115,4	124,9	133,4	154,7	173,5	206,5	201,3	223,4	206,0	*
Contact-related Crimes												
8	Arson	28,2	24,3	24,9	24,0	23,9	22,3	20,5	19,5	20,2	19,0	
9	Malicious damage to property	317,8	327,7	319,8	307,4	307,6	312,0	319,2	324,5	345,6	341,2	*
Property-related crimes												
10	House-breaking (res)	596,2	628,9	602,9	611,1	652,7	673,4	694,0	675,3	704,0	645,2	*
11	House-breaking (bus)	225,7	220,8	214,7	219,3	224,5	216,2	209,3	194,4	162,8	139,3	
12	Theft of motor vehicle	272,8	249,3	239,8	249,2	255,9	239,3	229,0	216,1	204,9	190,0	
13	Theft from motor vehicle	472,5	487,4	430,4	435,3	452,5	453,9	459	444,6	431,0	370,8	
14	Stock theft	121,9	109,7	103,5	101,0	98,8	96,2	95,1	92,9	102,7	89,0	

Crimes dependent on police action for detection												
15	Illegal possession of firearm	28,3	31,2	31,4	32,5	35,0	35,7	33,8	34,6	34,8	36,3	*
16	Drug-related crime	118,4	99,4	99,5	103,1	94	101,3	102,9	118,0	118,4	135,1	
17	Driving under the influence	66,2	58,2	60,4	69,8	59,8	60,5	58,4	54,8	48,7	53,7	
Other serious crimes												
18	Other theft	995,5	979,9	924,5	969,3	1051,4	1152,8	1281,1	1286,7	1364,6	1307,4	*
19	Commercial crime	162,5	154,0	153,2	153,7	150,9	157,7	152,4	130,4	123,7	120,4	
20	Shoplifting	170,9	160,0	152,2	154,3	153,8	153,4	154,9	152,6	151,8	155,0	
	Total (excluding crimes dependent on police action)	4989,9	4995,0	4784,4	4784,9	5047,3	5268,1	5516,3	5410,8	5562,9	5259,1	
Crimes accounted for under robbery with aggravating circumstances												
21	Carjacking	*	*	31,8	31,7	37,6	35,2	34,2	35,4	32,3	29,7	
22	Hijacking trucks	*	*	9,2	11,3	14,6	11,8	10,4	7,4	2,2	1,9	
23	Cash-in-transit robbery	*	*	0,9	0,6	0,5	0,5	0,4	0,5	0,8	0,4	
24	Bank robbery	*	*	1,4	1,1	1,2	1,0	1,1	0,8	0,3	0,1	

Source: SAPS 2004.[10]

Examining the above table, it is possible to understand why government spokespersons who reflect upon the figures tend to paint a relatively rosy picture of their management of crime in the country. It is only in the few cases with an asterisk in the right-hand column that crime appears to have increased since 1994. It is not only the ruling party in government that appears to be impressed with such figures. Some elements of business also appear (at least in public) to be satisfied. The *Financial Mail*, for example, suggested in an article on crime on 9 November 2001 that 'Police Commissioner Jackie Selebi's ... new crime plan is showing early successes'.[11]

But others have observed that there are at least two aspects to these official statistics that suggest there is less room for optimism.

First, as ABSA[12] noted in 1998, a longer-term perspective suggests that crime rates in South Africa really escalated during the late 1980s and early 1990s, so that, for example, if a 22-year time horizon is adopted, as in table 5, below:

- the number of murders reported nationally increased by some 300 per cent;
- the number of rapes reported increased by some 350 per cent;
- the number of burglaries reported increased by some 370 per cent; and
- the number of motor thefts reported increased by some 400 per cent.

Thus the issue is not so much the ANC government's management of crime, but larger historical crime patterns and trends.

Table 2: ABSA statistics on longer-term crime trends in South Africa (number of cases reported)

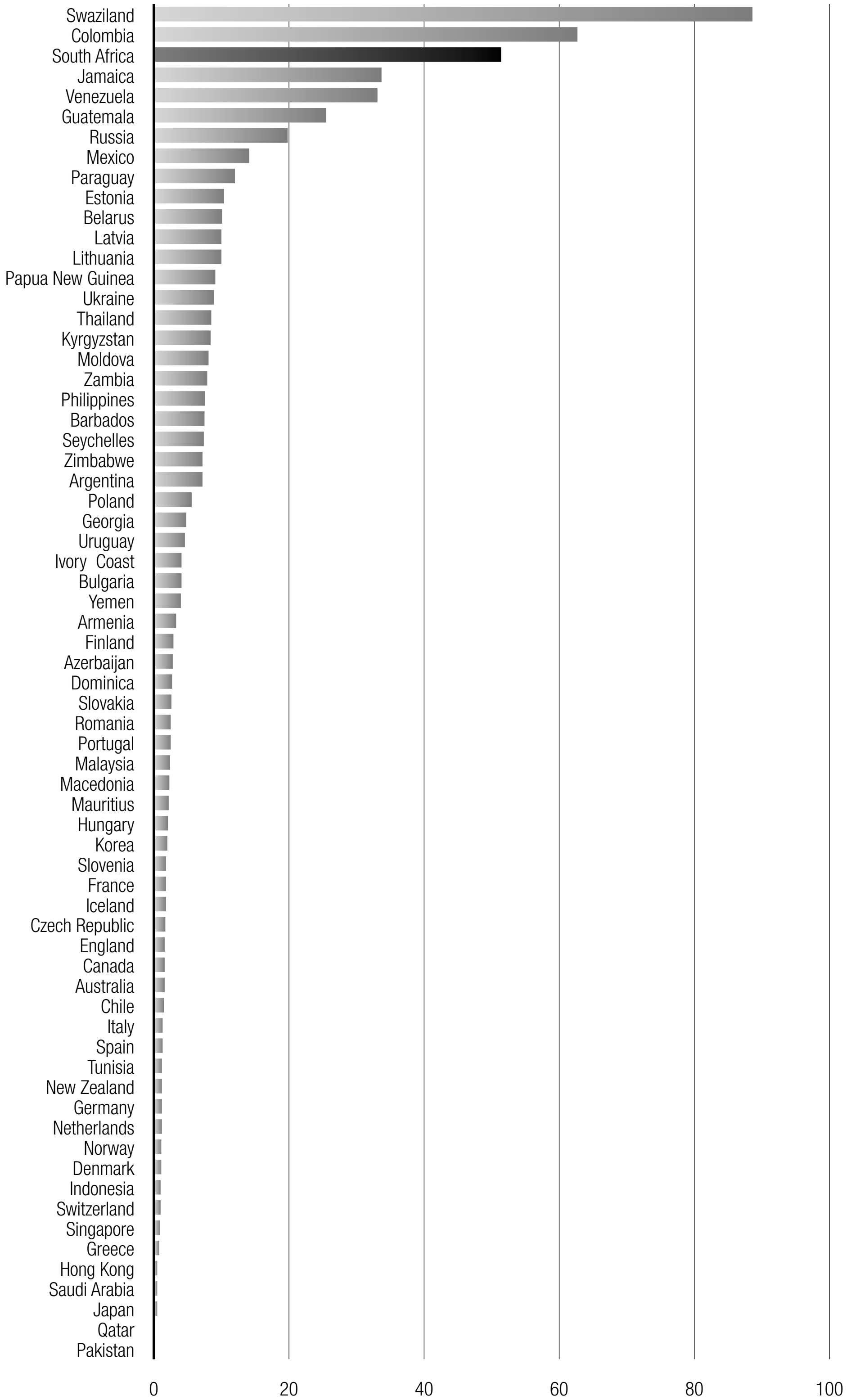
	1975	1980	1985	1990	1995	1997
Police violence	375	600	4 408	4 756	750	1 037
Illegal possession of arms and ammunition	1 498	5 389	3 650	7 322	8 344	12 874
Murder	8 662	8 356	8 959	15 109	18 983	24 581
Rape	14 815	16 149	16 085	20 321	36 888	52 099
Theft of motor vehicles	26 092	39 854	48 584	68 649	97 947	100 526
Robbery	37 896	45 442	39 302	61 132	102 809	122 256
Burglary	90 842	135 074	166 812	225 158	293 204	337 651
Assault	138 586	134 682	123 100	124 030	171 656	201 658

Source: ABSA 1998.

Second, crime in South Africa is now judged increasingly in international perspective. An international comparative context highlights South Africa's severity of crime. Rhodes University's MTN Crime Centre, for example, observed in 2003 that while it is true that some rates of more minor crime may actually be higher, say, in London than in South Africa, this is statistical gimmickry, and when viewed in global context the current national crime statistics are still very disturbing:

- South Africa ranks very high as far as [serious] crimes are concerned compared to 90 other Interpol member countries.
- The loss of life or permanent physical and psychological damage resulting from these crimes

Figure 1: Murder rates per 100 000 (2000)



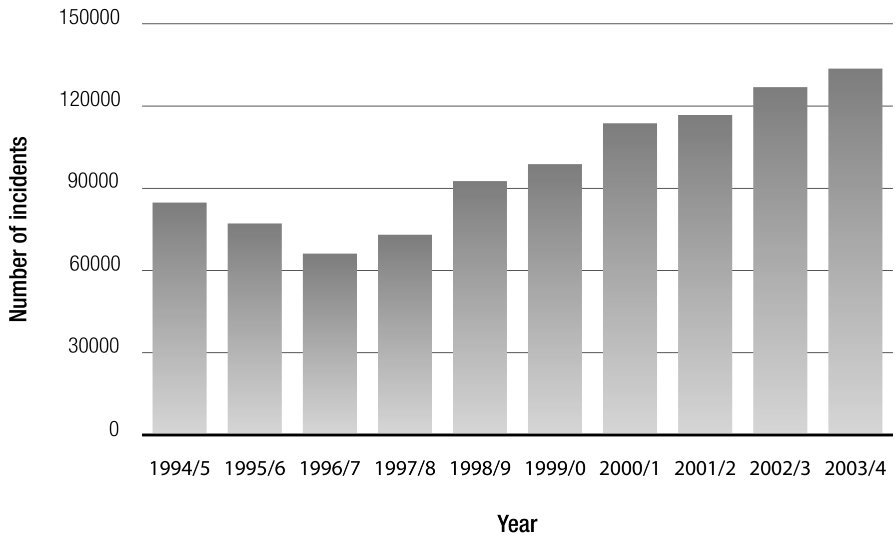
Source: United Nations Office on Drugs and Crime.[13]

cause more than material damage and feed into recurrent cycles of crime. This is also true of vigilantism as a reaction to high crime levels, which generates more acts of criminal violence.

- The report commented on the 'negative influence these crimes have on South Africa's image abroad and the consequence of this on foreign investments [and] tourism'.[14]

Comparative statistics on murder rates, and rising crime levels in selected crimes that particularly affect business (such as aggravated robbery), help to explain why it is that business often perceives the problem of crime differently to government. In a country noted for very high road death rates, South Africans are still more likely to be shot dead.[15] Many leading business people are quite frequently exposed to conditions in Europe, where murder rates are infinitesimal by comparison to South Africa (see figure 1 above); and South African business has been, in particular, exposed to armed robberies, the category in which there has been significant growth since 1994 (see figure 2 below).

Figure 2: Number of robberies with aggrevating circumstances, April to March 1994–2004



Source: South African Police Services website.[16]

Given this comparative data, it becomes possible to appreciate the concerns of firms – and especially of foreign-owned and -managed firms – in South Africa. Thus, for example, the American Chamber of Commerce's 1997 survey on crime in South Africa amongst its members painted a gloomy picture: senior managers and investors appeared to believed that crime in South Africa was 'out of control', and 'have little confidence in the police and the justice system'.[17]

Past and current impacts of crime on business

In the first instance, economic impacts of crime can be seen in its direct effects on the values of firms' operations and assets.

Stock shrinkage (due to shoplifting and employee theft) is a good illustration of risk. The *Finance Week* of 27 August 1999 provides a South African perspective:[18]

> Theft – or, as retailers prefer to say, shrinkage – has all but wiped out Shoprite's (incorporating OK Bazaars) profit for the year. Companies that keep shrinkage shrunk (as Pick 'n Pay) or manage it down (as Clicks has) can add big numbers to the bottom line. 'Shrinkage of up to 2% in retail is quite feasible,' says Pick 'n Pay group finance director Dennis Cope. 'But with food, you wouldn't want to stray over 1%, which is where we are.' And it's a number that gets the constant attention of Chairman Raymond Ackerman. Even smart retailers battle to break through the 3% trading income margin level .... Shoprite MD Whitey Basson is under a cautionary from the JSE regarding theft of stock. But he says that it's confined almost exclusively to Gauteng. Basson will not comment, but theft in Gauteng may be as high as an additional 0,5% above the budgeted shrinkage figure – which he will not disclose .... By far the biggest problem is deliveries paid for but not received. Cope estimates that it could be as high as 70% of the total value of shrinkage ...

With certain types of crime, then, potential impacts upon revenues and profits are the key risk.

The second type of direct impact is on a firm's residual asset values. This can be well illustrated by the case of the hotel business in Durban. Durban's central beachfront and CBD area hotels have been notoriously exposed to increased crime during the late 1990s and beyond. Hotel owners faced radical devaluations in asset values, while revenue dropped as tourists were deterred by crime.

Auctions of two landmark (near beachfront Durban) hotels in July 2000 illustrate this point.[19] An offer of R3,75 million was made for the Four Seasons Hotel, which was purchased in June 1998 for R7,5 million; a halving of value; and an offer of R4,5 million was made for the Killarney Hotel, only 39,5 per cent of original May 1993 purchase price of R11,4 million.

Similar challenges exist in manufacturing or office-based enterprises, where owners of buildings in crime-hit areas also face declining asset values. Both operating profit margins and residual asset values are at serious risk through crime.

We can observe that the presence of crime in an environment significantly affects the overall anticipated ratios between financial risk and return. If an increased rate of return to cover increased risk is not possible due to competitive local and international market conditions, then for investors generally the inference is obvious – stop investing locally, and 'milk the last profits' out of declining asset values.

Security is another significant direct cost. The World Bank showed that larger firms in particular were paying quite substantial security costs in order to combat crime, not necessarily with much effect.[20] The modal expenditure of larger manufacturing firms on crime prevention was between R1 001 and R2 500 per employee annually (table 3), so a firm of, say, 1 000 employees would typically be spending over R1 million a year on private security.

Table 3: Spending by firms on crime prevention per employee (guards and devices) in 1998 (per cent of firms)

Rands per employee			
	Size 1 (50–99 employees)	Size 2 (100–99 employees)	Size 3 (200 plus employees)
Less than 700	55,4	41,5	35,5
701–1 000	12,1	18,4	12,6
1 001–2 500	20,7	25,7	44,6
More than 2 500	11,7	14,4	7,31

The World Bank study moreover determined that there were significant correlations between such expenditures and other aspects of firm performance (see table 4 below).

Table 4: Correlation of expenditure on crime prevention with some economic variables

	Correlation coefficient	P>[R] under Ho: Rho = 0
Sales per employee in 1998	0.36323	0.0001
Investment	0.17431	0.0048
Employment 98/Employment 97	–0.18759	0.0030
Investment expansion	–0.01977	0.7773
Age	–0.03292	0.5886

The World Bank commented that:

> [This table] indicates a significant and positive correlation between annual crime prevention expenditures and sales per employee and investment. Firms which were performing better in 1998 also spent more money on crime prevention in the form of security guards and security devices. The same statistics can be interpreted to imply that firms that spent more on crime prevention also had higher sales per employee in 1998. On average, expenditures on crime were about 1.6 percent of sales in 1998.
>
> Are crime prevention expenditures related to firm growth? LFS [Large Firm Manufacturing Survey] data reveals a significant and negative correlation between crime prevention expenditures and variables related to firm growth.[21]

Other, less direct, costs of crime make themselves felt by feeding into firms' calculations of risk and return. These include fear and insecurity in the workforce, which may well reduce productivity, and the time taken to cope with consequences of personal experience of crime. It is also necessary to take into account the costs of a blow to domestic and international investor confidence and the costs of crime-induced social disintegration (see box, *Two thieves die*, page 77).

TWO THIEVES DIE IN VIOLENT VIGILANTE ATTACK IN DURBAN

A Durban community turned on three thieves, beating and stabbing two to death and leaving another critically injured before setting fire to the field where the bodies lay. The attack occurred after a group of Inanda residents, who were leaving for work yesterday morning, spotted the three stealing clothes from a washing line.

After waking neighbours and friends the workers chased after the men who ran into a valley in the Etafuleni area. When they cornered the men the attackers apparently beat them with knobkieries and stabbed and hacked them to death with knives, pangas, bottles and screwdrivers. Residents said a group of more than 20 men and women dragged the bodies around before dumping them and burning the field.

Police, who were called to the killing field nearly 12 hours later, battled to stabilize the critically injured man before calling in the specialized trauma air response helicopter. Detectives of the Durban serious and violence unit said so much force had been used that the blades of several knives and the end of a screwdriver had been found embedded in the corpses.

'We are following up on allegations that the men who were attacked were part of a criminal gang operating in Etafuleni and surrounding areas. We are also investigating whether the three men are linked to another killing in which two men were executed in the same area on Friday night,' said one of the investigators.

The two men killed on Friday night were shot through the back of the head after their attackers dragged them from their homes near Etafuleni. Police last night said they had found clothes, which the three men were alleged to have stolen, near one of the bodies. 'At the moment we do not have any suspects. All we can do is hope that someone will come forward with information on the identity of the killers,' said a detective.

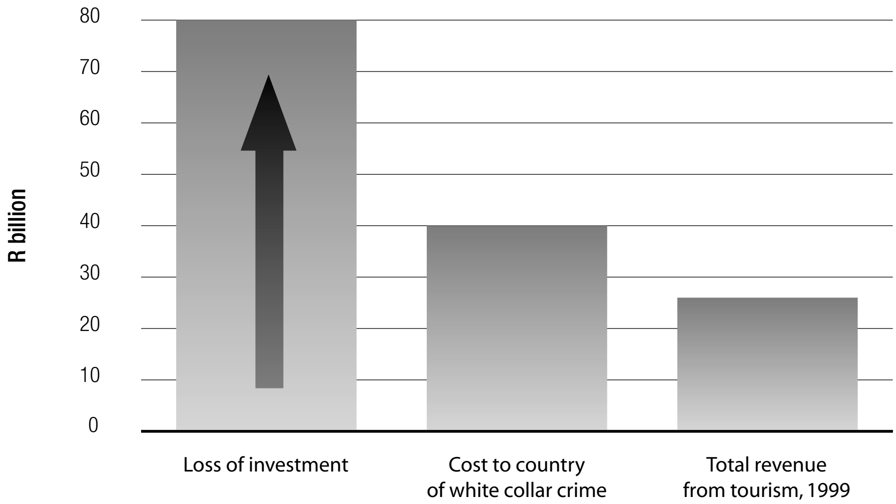
– *The Mercury*, 11 June 2003

What, then, are the aggregate costs of crime to the whole South African economy? In 1996, Nedcor calculated the figure at R31,3 billion.[22] This cost would be the equivalent of the total economic output of one of the country's smaller provinces (such as North West) in the same year. However, more recent research suggests that even this may be an underestimate. According to Business Against Crime (BAC), commercial crime alone cost the country R40 billion in 1999 – more, for example, than the total revenues from tourism in the same year (see figure 3 below).[23] BAC notes in relation to commercial crime that:

- of the estimated 200 000 cases of commercial crime a year, only 65 000 are reported;
- approximately 4 000 convictions (5 per cent) are obtained; and
- the loss to the economy is estimated at R40 billion a year.

Beyond this, however, BAC, like the World Bank, is also most concerned at the costs of crime in terms of its impacts upon loss of investment, which are seen to be at least twice those of direct losses due to commercial crime.

Figure 3: BAC's estimates of the costs of crime, 1999



The World Bank further emphasises the singular nature of crime as an investment constraint in the South African case.[24] Using comparative statistics from many countries elsewhere in the world, they concluded that South Africa was the worst case known of the impacts of crime on investment and employment expansion.

In countries like Brazil, crime was also a deterrent, but not as much as taxes were, or perceived political instability (see table 5). Mexico was the closest case to South Africa of the investment-deterrent effects of crime, but again, crime in Mexico was rated as a deterrent equal to several others. Only in the South African case is crime the outstanding deterrent.

Likely future impacts

Most analysts are agreed that South Africa's high crime levels are the product of a complex amalgam of forces including material inequality, weak state responses to crime, and the context of political transition.

To the extent that poverty and inequality are contributors to crime, any increase in these will obviously make crime worse. However, the main factors of concern now appear to be state responses to crime.

There is concern, for example, with police corruption, whose current rate of increase seems startling. In 2003, according to the director of the Independent Complaints Directorate (the official watchdog of the SAPS), there had been a 100 per cent increase in police corruption cases over the previous two years.[25]

Other important areas of weakness are in the area of prosecutions and conviction rates.

Bearing in mind the weaknesses inherent in crime statistics, and in using them as performance measures for the criminal justice system, the available numbers nevertheless paint an alarming picture.

Table 5: Constraints to business growth in Latin America, OECD, and South Africa, 2000*

	South Africa	Argentina	Brazil	Chile	Mexico	UK	Germany	Spain	Italy	USA
Crime	3,6	2,5	2,7	2,5	3,4	2,0	1,7	1,9	2,1	2,2
Finance	2,4	2,9	2,7	2,4	3,2	2,3	2,5	2,2	2,1	2,3
Exchange rate	2,4	1,8	2,9	2,5	3,2	2,3	1,7	1,9	1,9	1,6
Policy instability	2,0	3,1	3,5	2,6	3,3	2,2	1,6	2,4	2,9	2,0
Inflation	2,5	2,0	2,7	2,2	3,4	2,2	1,9	2,3	2,2	2,2
Corruption	2,6	2,6	2,5	1,9	3,3	1,3	1,8	2,1	1,8	1,8
Labour regulations	3,2	3,0	3,5	2,5	2,8	2,6	2,8	2,4	3,0	2,3
Taxes	2,8	3,3	3,6	2,2	3,2	2,8	3,1	2,6	3,3	2,4
Business regulations	2,0	2,4	2,7	2,3	3,2	1,9	2,2	2,2	2,6	2,1
Infrastructure	1,8	1,9	2,2	1,9	2,3	1,6	1,8	1,9	2,3	1,8
Anti-competitive	Na	2,4	2,4	1,9	2,8	1,7	2,2	2,3	2,2	1,7

A score of 1 means no obstacle and a score of 4 means major obstacle.

Source: World Business Environment Report, The World Bank, 2000.

Table 6: Performance of the criminal justice system[29]

	2000		2001		2002	
Crimes recorded	2 575 617		2 594 644		2 580 539	
Cases referred to court	609 928	24%	793 203	31%	824 991	32%
Cases brought to trial	271 057	11%	366 901	14%	402 587	16%
Convictions	211 762	8%	295 780	11%	327 142	13%

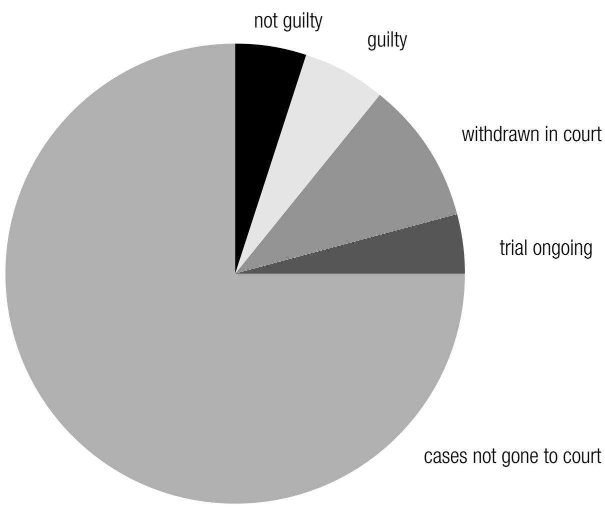
While many of the crimes committed in any year have reached the courts only in subsequent years, these statistics suggest that a very low 8–13 per cent of perpetrators of crime in South Africa were convicted in these years.

Conviction rates for some serious crimes in 2000 were even lower: car hijacking (2,3 per cent), aggravated robbery (2,8 per cent), residential burglary (4,7 per cent) and rape (7,6 per cent). Only one out of 43 hijackers was punished in 2000.[26]

Comparative statistics show that about half the perpetrators in murder cases are convicted in the United States and 56 per cent of murderers are brought to justice in England and Wales. South Africa does especially badly in statistics related to rape. Five per cent of rapists were convicted, compared to 19 per cent in the United States.[27]

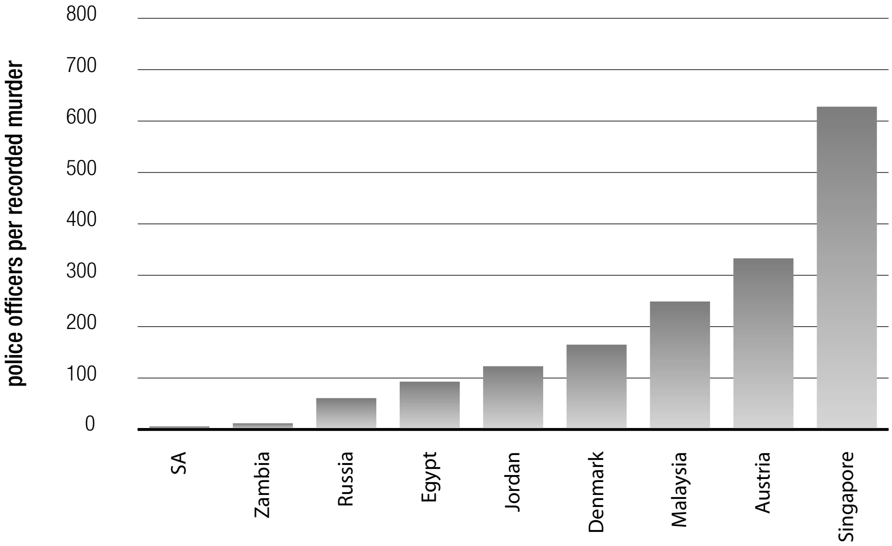
Figure 4 below summarises the results of research into crime and conviction rates conducted independently by advocate R Paschke, who over two years tracked developments in 15 000 cases of violent crime (murder, rape, and aggravated robbery) and fraud since 1998. He concluded that for every 100 serious violent crimes reported to police, perpetrators in only six cases had been convicted after two years.[28]

Figure 4: Outcomes of criminal cases in South Africa



While the ratio of police to the public in South Africa is better than in many countries at similar development levels (eg Turkey and South Korea), when one considers the ratio of police to murders, the picture is very different. In South Africa there are roughly six SAPS staff for every murder. In Singapore there are nearly 630 police for every murder. The following graph illustrates this point.[30] From this perspective it could be argued that South Africa is in fact dramatically under-policed.

Figure 5: Number of police officers per recorded murder

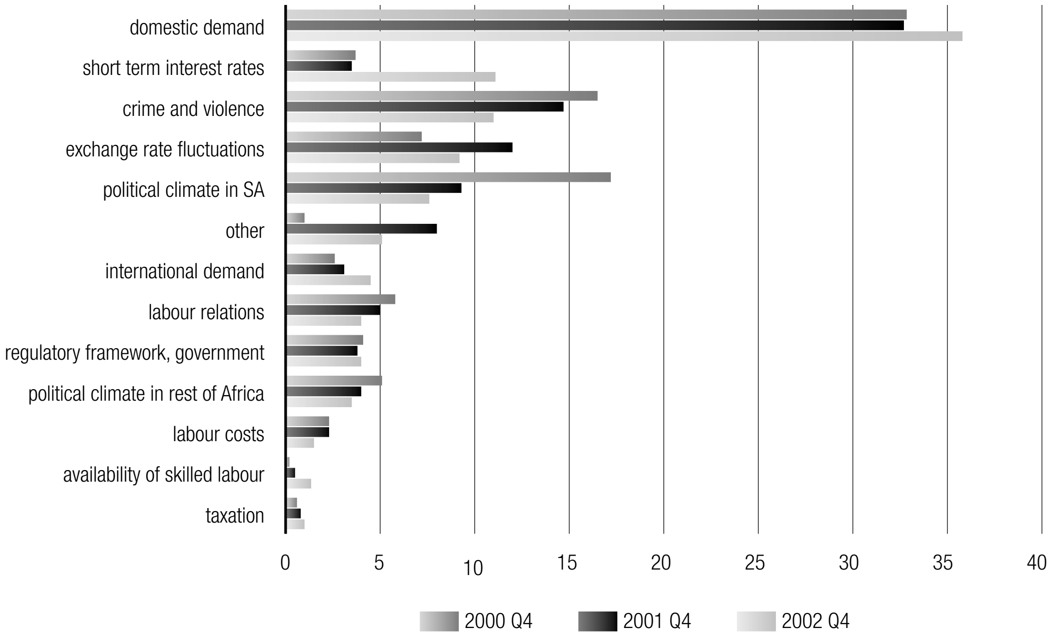


Source: Altbeker 2001.[31]

Expert analysts suggest that this mix of evidence seems to point in the direction of at least sustained high levels of crime for the foreseeable future.[32]

However, probably because levels of crime have remained fairly stable, the most recent trend within business appears to be that of declining relative concern about crime. For example, the 2002 RMB/BER business confidence index survey of 3 000 business people indicated that concerns with crime appear to be in (relative) retreat.[33] It may be that businessmen and women have become accustomed to high rates of crime, or that business is increasingly finding private solutions to the problems posed by crime. The mushrooming of the private security industry over the past five years in particular has centred on providing specialist, business-oriented solutions to the crime problem.

Figure 6: Changing factors impacting on business confidence 2002



However, it would also be wrong to rely solely on the Rand Merchant Bank (RMB) data reflected in figure 6 above for an assessment of the likely economic implications of crime in the future. The Bureau of Market Research at UNISA (BMR) arrives at somewhat different conclusions.[34]

Executives of selected top companies listed on the JSE Securities Exchange were requested to make predictions for 2002 and beyond for a number of economic variables in the BMR study. Respondents who expected a relatively high economic growth rate, pinned their hopes on, among other things, increased exports, which would be stimulated by low rand exchange rates. However, others warned that a world recession, the Zimbabwean situation, and structural problems in the South African economy may hamper growth. Importantly for our present purposes, there was a high level of consensus among respondents that the Zimbabwean situation and the high crime rate in South Africa have 'disastrous' consequences for economic growth and development in South Africa. According to respondents these two factors are 'destroying' business confidence in the country's economy and are impacting negatively on foreign direct investment.

In addition, there are compounding factors related to AIDS, to the punishment of offenders, and to corruption, which can only be speculated about at this stage. Illustratively, it expected that by 2010 there will be tens of thousands households in South Africa 'headed' by AIDS orphans. As the South African Institute of Race Relations[35] observes, in all countries, 'probably the single most important fact [about crime] is that it is committed mainly by teenagers and young adults'; and given the growing South African challenge of AIDS orphans, this international reality will gain even greater force here. Overall there is the prospect for mutually reinforcing interactive effects between crime and HIV infection.[36]

Government and private sector responses

Government responses

The government has not scrimped on resources in the fight against crime. Spending on the South African criminal justice system has been increasing in real terms for a number of years, and should continue to do so for some years to come. One tenth of annual government expenditure is currently devoted to policing, prosecuting, and incarcerating the country's criminals.[37] However, since 1994 there is limited evidence of credible strategies to improve matters. Initially, there was also a tendency within the ANC to see anxiety about crime as an expression of an inability by whites to deal with political transformation.[38]

Many in government appear to believe that they have done a relatively good job on crime; and crime, in turn, is often seen as part of that bundle of social ills that were inherited as 'the apartheid legacy'. In February 2003, for instance, president Mbeki wrote:

> In its third year, government's ten year plan to reduce crime has seen some important achievements. The 20 serious crime categories are in effect all stable or on the decrease .... While much of the fight against crime involves tackling the causes of crime, government's programme is aimed at strengthening the capacity of the police and other sectors in the justice and crime prevention cluster to prevent crime and bring the perpetrators to book.[39]

The notion that crime is essentially locality-based and linked to poverty and social welfare problems is quite widespread in the public sector. The mayor of the City of Johannesburg, Amos Masondo, characterises the situation thus:

> Last August [2002], the JMPD [Johannesburg metropolitan police department] announced a year round multi-focused campaign code named Operation Nude Ants. The campaign addresses all by-law violations such as outstanding warrants, illegal dumping, environmental health hazards, sale of livestock in residential buildings and open fire cooking on pavements and street corners, illegal occupation of land and hazardous buildings, liquor license violations, illegal taxi ranks, illegal connection of telephones and electricity, illegal trading and other crimes.[40]

The former director of public prosecutions, in an address to the Black Management Forum, probably typifies government's reactions to business's views on crime. Bulelani Ngcuka suggested there that business's reactions to crime are likely influenced by the racial character of business leadership:

> Crime is but one of a range of co-factors impacting on whether or not firms decide to invest in our country .... My thesis is that we South Africans place far too high a significance on crime than is justified by reality .... When it comes to our 'lawfulness index' (derived from a UN study), our own South African business people ranked us below Argentina, Brazil, Bulgaria, Costa Rica, Czech Republic, Chile, El Salvador, Italy and significantly Zimbabwe, to name but a few .... We are our own worst enemies. It is our own business people that are travelling abroad and essentially bad-mouthing the very same economy they make

> money from ... I believe that business people are on the whole quick to point to crime as one of the key reasons for the lack of investment and growth in this economy. However, if pressed to state exactly what they mean, and exactly when crime has actually negatively impacted on a specific investment decision, I believe that these instances are far less than commonly believed. Leading me to believe that there is a real problem of perception about crime amongst business people ... We want to see more positive news from your side. We want you to lead your white compatriots in spreading the good news about SA, as opposed to exaggerating the bad news. We want you to lead in the correction of the negative perceptions about our society.[41]

The government assessment that crime is essentially rooted in poverty and under-development is also reflected in the analytical perspectives of a number of technical studies. For example, according to crime analysts close to government, the link between crime and development is viewed as 'a complex one'. In South Africa the levels of crime, violence, and corruption are seen as 'one of the biggest threats to the consolidation of democracy and the future stability of the country'.[42] A country 'caught in a vicious cycle of crime and poverty, each feeding off each other', has necessitated a 'paradigm shift' in regard to the way that crime is conceptualised and tackled.[43]

Specifically, the government's national crime prevention strategy (NCPS) of 1996 states that there needs to be a shift in emphasis from approaches to crime as a 'security issue' to one that tackles crime as a 'social issue'. 'This not only supports a problem-solving approach to crime but also demands that crime is seen as a shared responsibility of all agencies, levels of government and organs of society.'[44] As these quotations make clear, the approach towards the links between crime and development is that of 'integrated holism'.

The NCPS was presented as a long-term, multi-departmental initiative aimed not only at preventing crime, but also repairing the blockages in the criminal justice system. It also hoped to improve environments to make them less conducive to crime and to improve public values. The strategy was 'hopelessly ambitious' and rapidly foundered amid institutional complexity and rivalry, lack of funds, the wide array of social problems, and the numerous deficiencies of the criminal justice system.[45]

However, the failure of this approach, along with mounting public concern, saw a swing back to law enforcement interventions – highly publicised crackdowns and tough talk, especially from the late minister, Steve Tshwete. But the benefits may be short-term.[46]

In recent months, the ministry of safety and security has been advertising the successes of its integrated national crime-combating strategy, introduced in April 2000. Yet it is difficult to determine from statistics what the short-term trends are, partly because, as a national victim survey conducted by the government in 1997 revealed, about half of all crimes are never reported.[47] The overall picture is therefore of a criminal justice system operating at a low level of efficiency and effectiveness.

Private sector responses

The private sector response to crime occurs at three main levels – capital flight, as has already been discussed in sections above; the adoption of increased private security measures; and broad corporate policy responses and public-private partnership efforts.

Probably the most pronounced private sector response to crime has come through the entrepreneurial efforts of those who have established the country's private security industry. In 2003 there were some 200 000 registered private security officers in the country, a figure which is growing at some 14 per cent a year, and as such it is the fastest sector of employment growth in the country. By 2003 there were an estimated 6 000 registered private security enterprises in the country.[48] The privatised response to crime is of course costly, and if it is assumed that the finding discussed earlier, that industrial firms spend on average R1 000 a year per employee on private security, then it is likely that the value of the private security industry is in the vicinity of at least R10 billion a year.

The public-private partnership type of responses is best exemplified by Business Against Crime (BAC).[49] This organisation was established in 1996 'in response to a request from then President Nelson Mandela inviting business to join hands with the Government in the fight against crime'. According to its website, BAC 'seeks to support Government's efforts by complementing its resources with the considerable entrepreneurial, managerial and technology skills for which the South African private sector is renowned'. Its objective is 'to make South Africa a safer place to live, work and do business in:

- 'A country of prosperity and opportunity for citizens and business in an environment uninhibited by crime; and
- A country that takes effective, consistent and ongoing preventative measures, and where necessary, criminal justice interventions to ensure the quality of life of its people.'

Its mission is to achieve a 'Safe and Secure South Africa'. BAC, according to its own literature, 'on behalf of business underpins this outcome' by supporting a number of targeted outputs or project initiatives that cover:

- strategy, policy, and priority determination;
- system and process improvements; and
- project implementation.

BAC's comprehensive website provides details about its organisation and activities which can only be summarised here. It consists of a group of six networked Section 21 companies each of which operate autonomously, but all of which follow the agreed major strategies and directives of BAC SA, whose directors are drawn from each of these companies. One of the main foci of BAC is its commercial crime initiatives which facilitated a specialised commercial crime unit launched in Pretoria that became operational at beginning of 2000. A training policy has been developed and implemented for commercial crime detectives and registered with the South African Qualifications Authority (SAQA).

More recent achievements include privately funded investigations and prosecutions, and the creation of more efficient specialised commercial courts.

BAC has also been instrumental in facilitating the introduction of CCTV monitoring of the streets in CBDs. This is reported to have reduced crime by 80 per cent in the Cape Town case and 50 per cent in the Johannesburg case.[50]

Very many companies support BAC, and it is likely the largest business-funded NGO to have been established during the 1990s, apart from the Business Trust. However, as an NGO with a ‘public spirit’ and public brief, it is inevitably constrained in what it can offer hard-nosed investors and managers. BAC is therefore only business’s ‘polite’ and/or public response to crime.

BAC’s budget is measured in the low millions. The private security industry, with its R10 billion a year turnover, must be regarded as the ‘real’ private sector response to crime. Private security firms are paid to get the job done, and not necessarily to be popular with government. They offer management the best possible combination of high management autonomy and low management intensity at a reasonable rate.

Private and corporate investors have proven the business worth of private security arrangements time and again. The World Bank study of large manufacturing enterprises referred to earlier found through its regression analyses that expenditures on private security are one of the best determinants of firm profitability. Moreover, it is a well-known fact that the residual asset values of firms are very strongly related to their insulation from crime. In one academic study conducted on KwaZulu-Natal’s security village projects, investors indicated that they had concluded that the additional value afforded by private security to their area was as much as 45 per cent of purchase price.[51] There is no reason to believe that such premiums are lower elsewhere; indeed, in even higher crime areas, such as Gauteng, the premiums are likely to be higher.

Towards alternative strategies

To summarise the evidence and analysis thus far:

- Since 1994, crime has not necessarily worsened in all sectors, and in some respects has improved; but a longer-term time horizon and global perspective shows that violent crime, in particular, and those aspects affecting business, have worsened, and that South Africa has among the worst rates of violent crime in the world.
- Crime impacts severely on business, and is a leading deterrent to investment, apparently more so than in any other country in the world.
- The government, civil society, and the private sector view crime differently. Vigilantism appears on the rise in poor communities, and privatised policing is on the rise among the middle classes and in business circles.

What can be said against such a background with regard to alternative strategies for crime management in the future? Much of the focus of this chapter has been on business and investor perspectives on crime, because it is on the supply side of the economy where the most critical economic consequences of crime lie.

A useful way to begin the process of developing an alternative approach to crime is to consider an orthodox social-democratic perspective on the relationships among crime, investment, and economic development. This will also help to underscore the apparently widening differences between public and private sector perspectives on this subject.

Dr Steven Gelb, in a 2002 article on domestic investment, asks ‘What are the prospects for improved investment performance?’[52] The standard policy measures to raise investment rates by companies, he argues, will only make a significant difference if the underlying confidence issues are also addressed. And these, Gelb argues, can only be addressed if 'government credibly addresses inequality and polarisation in the society, and thereby increases security over property rights'.[53] The article emphasises class inequalities as the supposed basis for crime, and national goodwill and voluntarism as the basis for combating its symptoms. This is a view widely held by those in government, together with the idea that crime is being over-emphasised by 'unpatriotic whites'.

It is important to recognise the gulf that lies between public and private sector reactions to the challenges posed by crime. Business people probably have relatively little interest in what causes crime; and may doubt that inequality is a sufficient trigger of criminality. But the real difference between public and private sector views lies in the response adopted.

As we have noted above, the predominant private sector response to crime has been to develop privatised crime prevention solutions. In practice, there is very little confidence within business that either the public sector or public-private partnerships will be able to provide the required solutions. Indeed, at the time of preparation of this chapter, government and civil society generally appeared to be heading in opposite directions with respect to crime. Government was, for example, claiming significant gains in its 'war against crime', and preparing legislation to reduce (legal) gun ownership, and to outlaw the fences and boom gates which had appeared (under private initiative) in many suburbs.

Notwithstanding increased spending on the criminal justice system, public feelings of insecurity have worsened significantly since 1994. Moreover, a range of legislative and operational initiatives to combat crime, and to improve the effectiveness of the criminal justice system, have had only a limited impact so far. Many criminal justice performance indicators continue to show a worsening of the system's performance.

What, then, is to be done? This leads to consideration of costs and benefits of alternative strategies, as laid out here by one of South Africa's leading experts on crime.

> Criminal justice policy makers will have to make bold and innovative decisions to rapidly boost the performance of the criminal justice system in a cost effective way. Moreover, they will have to make some courageous choices, motivated by a desire to improve the whole criminal justice system. Firing untrainable and unprofessional police officers, and outsourcing a number of criminal justice functions, will not be popular with trade unions and state employees whose jobs will be lost. Such sacrifices will have to be made if the performance of the criminal justice system is to be enhanced, and to convince crime-ridden communities to reject vigilantism.
>
> The department of correctional services is also likely to resist cutbacks in its budget in order to finance the building of court rooms, and the employment of more prosecutors and magistrates. However, given the present crisis the criminal justice system faces, it is crucial that bottlenecks within the system, such as the present case backlogs in the courts, are addressed rapidly. Policy makers will have to employ great skill and diplomacy to convince criminal justice departments that some will have to make short-term sacrifices for long-term gains.
>
> To change the widespread culture of violence in South Africa will take time. Crucially, it cannot be done by the criminal justice system alone. Peoples' beliefs and values are at their most mouldable during their childhood and early adolescent years. During this time

> young people generally have little contact with the police or criminal justice system. Their role models and those who have influence over them are their parents, siblings, extended family members, teachers, religious leaders, friends and other people in their age group with whom they mix on a regular basis. Such role models and age-group peers, and civil society organisations all exert informal social controls, or pressures to conform to the law and socially acceptable behaviour. This places an onus on all law abiding South Africans to play their part in changing the destructive values and attitudes that have been internalised by a large portion of the population.[54]

It is interesting that, in the end, the solutions offered are found outside the state. At a micro-level of adaptation, this is already what has happened within the private sector, as entrepreneurial and private solutions to minimising the impacts of crime have come to the fore. Whether this will all lead to an aggregate outcome for the society as a whole that is ideal is of course a different question.

However, while there are such divergent paradigms in the public and private sectors in their responses to crime, it seems quite unrealistic to hope for some optimal public-private-partnership mix, at least in the short term.

In the longer term, the emphasis should likely fall on the need for the state to recognise, facilitate, and support private sector- and civil society-led responses to the challenges posed by crime. But there is a prior task. In a context where understandings of crime (from statistics to explanation) are affected by political and even racial polarisation, addressing the often incredulous response of government to growing evidence that crime is a major, and likely the major, deterrent to investment and employment expansion is essential. This is the best place to start in narrowing the gap between official and private sector perspectives on crime.

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PART 3

Mobility and inequality

CHAPTER 4

INEQUALITY IN POST-APARTHEID SOUTH AFRICA

Jeremy Seekings, Nicoli Nattrass, and Murray Leibbrandt[1]

The improved availability and accessibility of survey data makes it ever easier to identify the factors underpinning poverty and inequality in South Africa at and after the end of apartheid.[2] In sum, households are rich or poor according primarily to the number and earnings of wage earners; earnings depend overwhelmingly on education and skill. Some households without wage-earners are lifted out of the worst depths of poverty by eligibility for government welfare payments (especially old-age pensions). There are some working poor – especially workers in the agricultural and domestic sectors – but most people are poor because they or their prospective 'breadwinners' are unemployed. Subsistence agriculture and informal sector activity are of marginal importance to poverty or inequality.[3]

TRENDS IN THE DISTRIBUTION OF INCOME

Having changed little through most of the second half of the 20th century, inequality in the distribution of incomes rose after apartheid. Data from the government's income and expenditure surveys (IESs) suggest that inequality worsened between 1995 and 2000, with the Gini coefficient for per capita incomes rising from 0,65 to 0,69 or 0,70 (depending on how the data is weighted) and the Gini coefficient for expenditure per capita rising from 0,65 to about 0,68.[4]

While overall levels of inequality might have changed little, there has been a steady shift in the income shares of the different 'racial groups'. The white population's share of total income declined from about 71 per cent in 1970 to 52 per cent in 1996, while the African population's share rose from about 20 per cent to 36 per cent (according to data from population censuses).[5] IES data on incomes suggest that this trend has continued: the white population's share of total income declined from 49 per cent in 1995 to either 40 per cent or 46 per cent in 2000 (according to the selection of weights); using the more credible weights suggests that the African share is creeping rather than galloping up.

These trends are also reflected in the dramatically shifting racial composition of the higher income deciles. By 1996, African households comprised 22 per cent of the richest decile. Indeed, the rising share of income of the black population between 1991 and 1996 was due to the marked increase in the income share of the growing black elite.[6] Depending on the weights used in the 2000 IES, the white proportion of the top decile was 73 per cent in 1995 and by 2000 had dropped to either 61 per cent (a lot) or 55 per cent (too much to be credible). Even using the more conservative, revised 2000 weights, there were by 2000 about as many African households in the top income quintile (the top two deciles combined) as there were white households.

Declining interracial inequality has been accompanied by rising intraracial inequality. Not only are the post-1991 intraracial Gini coefficients for the distribution of income high (especially for the African population), but there is a clear upward trend. In 1975 the 'between-group', inter-racial contribution to overall inequality was almost twice as important as the 'within-group', intraracial contribution, but by the late 1990s this ratio was reversed.[7] These changes reflect a continuing shift from race to class as the basis of South African inequality. In the early apartheid period, many white South Africans secured better employment and living conditions than similarly or more skilled or able black South Africans, simply because of racial privilege. But under apartheid, race slowly gave way to class as the basis of advantage and disadvantage. Massive public investment in the education of white children meant that, increasingly, white citizens enjoyed superior skills and could command higher incomes without direct racial discrimination. Changes in the occupational structure together with the erosion of racial discrimination meant growing opportunities for some black South Africans, but at a time when deagrarianisation and rising unemployment meant that others were confined to poverty. By the end of the apartheid period, most (but not all) white South Africans enjoyed such advantages in terms of human as well as financial capital that even the deracialisation of public spending on education would not seriously erode white privilege.[8]

WHO GETS AHEAD? THE NEW AFRICAN MIDDLE CLASS

The accelerating growth of the African elite and middle class is perhaps the most dramatic shift in the social landscape of post-apartheid South Africa. Of the growth in income between 1991 and 1996 that can be attributed to economic growth, plus the aggregate income losses experienced by 'loser groups' (most white income quintiles), about 12 per cent went to the white elite (the top white income decile especially), while 52 per cent went to the top African income quintile (with as much as 40 per cent going to the top African income decile alone). Between 1991 and 1996, the number of households in South Africa grew by 26 per cent. The number of 'middle-class' households – those with incomes above R72 000 a year in 1996 prices – rose by just 15 per cent, but the number of 'middle-class' African households rose by 78 per cent.[9]

The new African middle class comprises people in salaried jobs (such as managers and university lecturers) and professionals whose income is generally treated as salary, as well as entrepreneurs and capitalists. The lion's share of the top quintile's total income comes from wages and salaries, with relatively very small sums from profits, rents, interest, and private pensions. 'Black economic empowerment' through business opportunities is much less important in terms of changing patterns of income distribution than upward occupational mobility, assisted by affirmative action, and reflected in the distribution of salaries.

Black upward mobility into top income categories in the public sector is reflected in the proportion of African managers (at all levels) rising from 30 per cent in 1995 to over 51 per cent in 2001, with the total black proportion rising from 40 per cent to over 63 per cent. Change at senior management level is more muted, but nevertheless there were more black than white senior managers by 2001 and almost as many African as white senior managers. The racial composition of non-managerial staff in the public sector has also shifted, with the African (and black) proportion rising and the white proportion falling.[10] Transformation is slower in the private sector. In the public and private sectors combined, in 2001 white people still made up a majority (barely) of the 'legislators, senior officials and managers' and precisely 50 per cent of professionals, but they constituted less than one third of 'technicians and associate professionals'. Taking these top three occupational categories together, white people made up 43 per cent, just about the same proportion as African people (41 per cent).[11]

WAGES, EMPLOYMENT AND UNEMPLOYMENT

Falling formal employment is probably the key defining feature of economic growth in the 1990s. Non-agricultural private employment – and to a lesser extent also public employment – fell across the decade. Similar trends appear to be evident in agriculture.[12] Those who lost employment (or failed to find it) were the big losers. By contrast, most of the employed and owners of capital did relatively well. Real average remuneration rose as employment fell. Given that average labour productivity rose over the same period, it is likely that it was the relatively skilled workers who retained their jobs and experienced increasing real wages.[13] Employment shedding off commercial mines and farms has also contributed to the shift away from unskilled employment in South Africa over the decade.[14]

The 1990s saw continuing 're-segmentation' of the labour market, with a deepening divide between workers in formal, regular employment and those in casual or contract employment but the pace or extent of this remains unclear: in the mid-1990s flexible employment relationships were not that widespread, with as much as 93 per cent of the manufacturing workforce in regular, full-time employment.[15]

The advantages experienced by formally employed workers (especially those with skills) have persisted in post-apartheid South Africa. Analysis of changes in individual earnings of a panel of African people in KwaZulu-Natal shows that the real earnings of workers in regular employment rose by 30 per cent between 1993 and 1998, compared to an overall average change in earnings of just 7 per cent.[16] The earnings of workers in regular employment grew faster than the average for everyone in the sample. Some of this spectacular increase was because new entrants into formal employment had higher wages than those who left. But even among workers who were in formal employment in both 1993 and 1998, earnings rose by 20 per cent.[17] However, the earnings of workers who lost or left their jobs plummeted. The aggregate gains of workers in regular employment should not obscure the fact that the composition of this group shifted, with white-collar and skilled occupations probably enjoying positive real earnings growth during the late 1990s.

The 1990s were also good for capitalists.[18] In the face of sharp increases in labour costs, firms secured an increase in labour productivity. By restructuring and downsizing their workforces, they ensured that each remaining worker contributed more to output than had been the case when employment was higher. This was good for profitability. One rough indication of profitability is the gross profit share (that is, the share of gross output going to the owners of capital). Broadly speaking, if the growth in labour productivity is greater than the growth in real wages, then workers are contributing more to output growth than they are getting back in wages, and hence the share of output going to capitalists (the profit share) will rise and the wage share will fall. The average rate of growth of productivity exceeded that of real wages for most of the 1990s. As a result, the aggregate profit share was about 10 per cent higher in 2001 than it had been in 1990.

Unlike most employed workers and capitalists, the unemployed were unambiguous losers during the 1990s. Since 1993, unemployment rates have risen steadily in terms of both the official (strict) and expanded unemployment rates (the former including only active work-seekers in the labour force, the latter also including discouraged work-seekers).[19]

Post-1993 surveys show a remarkably consistent pattern: unemployment is higher for Africans than other population groups; higher for women than men; and higher in rural than urban areas. Rural African women are the most disadvantaged with respect to access to the labour market: 40 per cent of them want work and are actively seeking work and a further 20 per cent want work but have given up actively seeking it. Unemployment rates are particularly high in the old 'homeland' areas.[20]

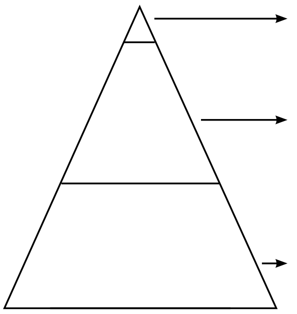
The rise in unemployment contributes greatly to widening inequality in South Africa. Where there is no subsistence agricultural sector to fall back on, unemployment is closely associated with poverty. Unemployment rates are closely – and inversely – related to income in South Africa, being lowest in the rich deciles and highest in the poor deciles.[21] It should be noted that there is some uncertainty about South African labour statistics, especially the extent to which economic growth has been 'jobless': South African Reserve Bank data shows a decline in employment in the late 1990s, while the October Household Surveys (OHSs) suggest that there was a rise in employment, due to rising informal sector employment, and Labour Force Survey (LFS) data from the early 2000s seems to indicate even higher levels of employment (at the same time as higher unemployment rates).[22]

South Africa is unusual in that it is a middle-income developing country with high unemployment and a relatively small informal sector. In Latin American countries, workers who lose their jobs (or cannot find work) in the formal sector tend to find work in the informal sector (meaning in less secure, poorly regulated, and low-paying jobs). In South Africa, those who lose formal sector jobs seem to end up in unemployment rather than the informal sector. Simkins found that Africans were less likely to be informally employed than searching for work, and that women and rural people were more likely to be informally employed. Increasing education also makes participation in the informal sector less likely.[23] This is unsurprising, given that those who do end up in the informal sector, tend to earn very low incomes: most enterprises were retail, did not add value through production (that is, did not use raw materials), less than 10 per cent being in manufacturing; about a third were without electricity and without a toilet on site; and average monthly profit barely exceeded the old age pension.[24]

The obvious question is, 'why isn't South Africa's informal sector larger?' Put another way, what constrains prospective entrepreneurs from starting informal businesses, and what inhibits the accumulation of capital? One prime suspect is South Africa's labour market regulations. A recent study of small, medium and micro enterprises (SMMEs) documents many of the grievances that small entrepreneurs have with labour regulations, particularly with regard to wage-setting and the costs of retrenchments.[25] Anecdotal evidence suggests that social obligations (including the cost of funerals) and crime often wipe out working capital. Perhaps, also, there is a lack of an entrepreneurial culture and experience, which South Africa's public education system does little to redress.

Household survey data can be used to 'map' the class structure in South Africa. Figure 1 presents in summary form such a map using 1993 data.[26] Society can be divided into three broad groupings, each of which comprises several discrete classes. The first grouping comprises the 'upper class', including households headed by people in managerial or professional occupations and households with significant income from assets or business activity. The middle grouping comprises four classes: the 'semi-professional' class, comprising households headed by teachers or nurses; an 'intermediate class', defined in terms of routine white-collar, skilled, and supervisory occupations; a 'core working class', defined in terms of semi-skilled and unskilled occupations (excepting workers in domestic and agricultural work); and 'petty traders', with low but not negligible income from business, typically in the informal sector. The third or lower grouping of classes comprises the 'marginal working class', including households headed by semi- or unskilled workers in agriculture or domestic work; an 'underclass' comprising households with unemployed but no employed members; and a residual 'other' category including households where no one works and no one is unemployed, typically comprising therefore pensioners, children and other non-participants in the labour force.

Figure 1: South Africa's class structure (1993)



	% of households		% of income
Upper class	12		45
Semi-prof. class	5	48	45
Intermediate class	19		
Core working class	19		
Petty traders	5		
Marginal working class	12	41	10
Underclass/other	29		
Total	100		100

The exercise of mapping class has some heuristic value, in that it emphasises the size of the social classes or categories that lie, by just about any criteria, 'below' the industrial working-class. The third, lower grouping in Figure 1 encompasses almost all households with incomes below the median. Conversely, few households in the middle grouping have incomes below the median: most have incomes above the median but below the mean. The real value of mapping class, however, lies in exploring the consequences of class, in terms of social and political attitudes and behaviour. Preliminary research shows that there are close correlations between class, as defined above, and some other variables (life expectancy, schooling of children, and income), but little or no research has been done on the wider range of possible consequences of class.

FISCAL INCIDENCE ANALYSIS

South Africa redistributes more extensively through the fiscus than any other developing country for which data are readily available.[27] The Gini coefficient for the distribution of 'income' is reduced by about 18 percentage points (to about 0,50) if taxes and cash transfers are taken into account, and by a further six percentage points (to perhaps 0,44) if the value of in-kind public social spending (primarily health care and education) is taken into account.[28] This redistribution occurs primarily through three mechanisms: a progressive and efficient tax system; egalitarian public expenditure on education combined with high enrolment rates among poor children; and an exceptional public welfare system based primarily on *de facto* universal and generous old-age pensions.[29]

In 1993–4, the top income quintile paid between 75,7 per cent and 80,1 per cent of all taxes. The shares of the other income quintiles were estimated at about 2 per cent (quintile 1), 3 per cent (quintile 2), 5 per cent (quintile 3) and 12 per cent (quintile 4). The top quintile paid 94 per cent of all income taxes and 65 per cent of all VAT, but only 41 per cent of the 'sin' taxes on the sale of alcohol and tobacco (because a high proportion of sales of these is to poor households).[30] Between 1995/6 and 2000/1, the share of tax raised from income taxes on individuals declined marginally, and the share of tax raised from VAT declined by somewhat more, while the share raised from company taxes rose.

Recent work found that 31 per cent of public spending in 1993 on education, health, social assistance, housing, and water was spent on households in the bottom quintile, compared to 21 per cent on the second quintile and so on, up to just 12 per cent on households in the top quintile. By 1997, the proportion spent on the poorest quintile had risen to 33 per cent, and the proportion on the top had fallen to just 8 per cent. Over this period expenditure per capita rose, overall, by 24 per cent. Expenditure per capita on the bottom three quintiles all rose faster than this overall average, while expenditure per capita on the top two quintiles actually fell. This shift was driven by the changing incidence of expenditure on schooling, and illustrates the major redistribution through the state in the form of both cash transfers (social assistance) and benefits in kind (especially free schooling and health care). There is an important caveat: one reason for the big increase in spending on education for poor children was the increased salaries paid to teachers in former Bantustan schools, but there is no evidence that this incidence of expenditure actually resulted in a higher quality of schooling.[31] In other areas, too, apparently pro-poor public expenditure, such as free provision of limited water, may not convert readily into sustained improvements in the lives of the poor, due to an inability or unwillingness to pay.

One area of expenditure where government spending converts very closely into real and immediate gains for the poor is social assistance. The post-apartheid state inherited a very redistributive welfare system, based around non-contributory old-age pensions and, to a much lesser extent, non-contributory disability and child maintenance grants. Since 1993, the government has tinkered with, rather than extended, the welfare system. The real value of the old-age pension has fallen. Child maintenance grants, which were generous but reached few children, were replaced by child support grants, which were greatly reduced in value but are already reaching many more poor children. A total of almost 4 million people – or one in ten South Africans – receives one or other non-contributory government grant.[32] The government's recent decision to extend the cut-off age for child support grants promises to further redistribute tax revenues to the poor.[33]

South Africa might be exceptional in terms of the scale of redistribution through the budget, but this does not mean that poverty is eliminated. The unusually generous and inclusive system of social assistance nonetheless has a loose weave and many poor people fall through the holes.[34] Crucially, there is no cash support for households that include no pensioners, no disabled people and no young children. The welfare system was designed in an era of full employment; now, at a time when poverty is due above all to high rates of unemployment, the system is inadequate.[35] The benefits 'in kind' of public expenditure on education are also of limited advantage to the poor, given the low quality of much public education and the poor prospects for the less skilled in securing well-paid jobs.

INEQUALITY AND IDENTITY

Cross-national studies have shown that high or rising inequality is not conducive to the sustainability of representative democracy.[36] In South Africa, how does inequality affect politics? And how has the changing nature of inequality affected political co-operation and conflict? The declining correlation between race and class might be expected to lead to the realignment of politics around class, and the emergence of parties actively championing the interests of the poor majority against those of the increasingly multiracial elite. In South Africa, however, citizens continue to select racial identities in preference to class identities in surveys, volunteering racial, ethnic, or linguistic identities five times more often than class ones in the 2000 Afrobarometer survey. Racial identity politics may be good for democracy but bad for redistribution: 'Identity politics … may limit both prospects for reducing inequality and the threat which it poses to the survival of formal democratic politics.'[37] The apparently limited salience of class consciousness does not prevent people from expressing strong discontent with government's performance on job creation and crime, but there are few signs of a distinct consciousness among the unemployed.[38]

Surveys show declining confidence in the economy and trust in government. By 2000, only one in three African respondents expected the economy to improve over the following year and barely half said that the president was interested in their opinions (with a smaller proportion saying this of parliament). 'Relative deprivation' also seemed to be increasing:

> Even in 1995, despite one of the highest rates of income inequality in the world, only 32 percent of South Africans said they were worse off than others. This was largely due to the fact that black South Africans tended to compare themselves to other blacks rather than to whites. By mid-2000, however, this figure had increased sharply to 50 percent. In the same survey, 31 percent of blacks said their lives were worse now than under apartheid, up sharply from 13 percent in 1997.[39]

In early 2003, the Institute for Justice and Reconciliation included in its 'reconciliation barometer' a question on South Africans' perception of the 'biggest division' in the country 'today'. The precise wording was:

> People sometimes talk about the divisions between people in South Africa. Sometimes these divisions can cause people to feel left out or discriminated against. In other circumstances it can lead to anger and even violence between groups. What, in your experience, is the biggest division in South Africa today?

The options presented to the respondents were:

> (1) The division between different political parties like the ANC and IFP. (2) The division between poor and middle income/wealthy South Africans. (3) The division between those living with HIV/AIDS and other infectious diseases, and the rest of the community. (4) The division between members of different religions. (5) The divisions between Black, White, Coloured and Indian South Africans. (6) The divisions between South Africans of different language groups.

The wording of the question might have led respondents to select either race (the fifth option, because of the reference to discrimination) or parties (the first option, because of the reference to violence). But only one in five of the respondents selected the fifth option, with a similar proportion selecting the first option. More – 30 per cent – selected the second, class option. The class option was selected by 29 per cent of white and African respondents, and a slightly higher proportion of coloured and Indian respondents. Within each racial group, it was the most popular option.

Activists to the left of the ANC claim hopefully that there is a growing tide of militant class consciousness among the poor; there is little evidence, however, that this extends beyond small circles of activists in particular areas. Racial identities have proved resilient, in part due to constant reinforcement by the ANC, which, as the governing party, has taken political advantage of a range of pro-poor redistributive policies that it inherited in 1994 and strengthened thereafter. Pro-poor policies are presented in terms of racial redress.[40] The ANC also plays the race card effectively in elections, preserving a racial cross-class coalition.[41] Whatever his intention, the effect of president Mbeki using the racialised discourse of 'two nations' can only be to shore up racial identities and racialised allegiances. Racial privilege, rather than inequality more broadly, is the ANC's target. For their part, ANC supporters have remained loyal because of the recency of democratisation or liberation, for which the ANC is given considerable credit. At the same time, the electoral system provides an important source of patronage: places on the ANC electoral lists. This, combined with control over appointments in both state and parastatal sectors, and opportunities for both legitimate and illegitimate business activities, serves to keep aspiring black elites on board, renders opposition parties unattractive to disillusioned ANC supporters, and inhibits the emergence of alternative political cleavages.[42]

Another possible explanation of the acquiescence of poor voters is that they might be making decisions about political allegiance and protest based not so much on current social or economic position, as on their expected future positions. The perception that economic liberalisation might promote a more meritocratic society might explain why poor voters in a number of new democracies have endorsed market reforms, even when those reforms have heightened inequality.[43] In South Africa, most poor voters have remained loyal to the ANC in part because they are patient in waiting for their expectations of change to be fulfilled.[44] It is perhaps these voters' expectations of future improvements in their lives that are more important than their experience of hardship – and even deepening hardship – now. Black economic empowerment, affirmative action and changes in schooling (public and private) together mean that some African people face improved work opportunities and improved opportunities to acquire human capital. But are these improving opportunities open to African people across the board or are they restricted to some subgroup of African people?

SHORT-TERM FLUX IN INCOMES

Panel studies provide the best data on income mobility over time. Data on a panel of African people in KwaZulu-Natal shows that the average real earnings of workers in formal employment were 30 per cent higher in 1998 than the average of those in formal employment in 1993. Over the same period, the total number of the workers in formal employment in 1993 actually experienced a decline in average real wages of 8 per cent by 1998. The difference was because some of the 1993 workers were no longer in formal employment in 1998, while some of the 1998 workers had been unemployed or in informal employment five years previously. Cichello et al conclude that there is significant 'churning' in the labour market, as people's labour market status changes.[45]

Mobility should be analysed in terms of household as well as individual earnings.[46] Thirty-seven per cent of households in the poorest income quintile in 1993 were still in the poorest income quintile in 1998, while 26 per cent had moved up into the second quintile and smaller proportions had moved further up the income hierarchy. A total of three out of every four African households were in the same or an adjacent income quintile in each survey; only one in four households moved into non-adjacent quintiles, for example from the first to the third quintile. Most rich households remained rich: almost two-thirds of the households in the top quintile in 1993 were in the top quintile again in 1998 (and most of the new entrants to the top quintile came from the fourth quintile). More than two-thirds of the households in the bottom quintile in 1998 had been in one or other of the bottom two quintiles in 1993. In sum, this data indicates both continuity and flux.

This flux is in part due to changes in *individuals'* earnings.[47] Among working people, counter-intuitively, the individuals who suffered the biggest drop in earnings were those with the highest earnings to begin with, while the individuals who gained the most were those with no or low earnings in 1993. This is because the dominant factor behind rising and falling earnings was a change in an individual's labour market status. Only 62 per cent of the individuals in regular (or 'formal') employment in 1993 were in regular employment in 1998. About 18 per cent were now in casual employment or informal sector work, about 15 per cent were unemployed and 6 per cent were not available for work. The shift from regular employment to non-employment (whether unemployed or not available for work) was, of course, catastrophic in terms of earnings: the mean monthly earnings change among those in regular employment on both dates was a gain of R189 (in 1993 prices), but those who changed from 'formal' to 'informal' employment suffered a loss of R152 per month, and those who changed from 'formal' to no employment at all lost R797 per month. Viewed from the other end of the labour market, one in five individuals who had been unemployed in 1993 was in regular employment in 1998. Their mean monthly earnings rose by a massive R1 278. Slightly fewer had moved into 'informal' employment (with much more modest earnings gains) while the largest percentage remained unemployed (46 per cent) or were no longer available for work (17 per cent), and hence experienced no change in their earnings.

Changes in *household* incomes can also be divided into changes due to 'income events', that is, changes in the household's money income and changes due to 'demographic events', that is, changes in the size or composition of the household.[48] Income events accounted for about three-quarters of the movements into or out of poverty (defined in terms of adult equivalent income), with demographic events accounting for the remaining quarter. The key income events were changes in the earnings from work of the household head or other household members. Unsurprisingly, job losses and the acquisition of additional unemployed dependents both correlated with dropping behind.[49] In sum, the data from KwaZulu-Natal suggest that the income mobility in South Africa is due primarily to flux or 'churning' in the labour market as workers lose jobs and unemployed people (or people working in the informal sector) secure employment.

LIFETIME PATTERNS IN INCOME DISTRIBUTION

Considerable flux in the labour market, in a context of high unemployment rates, means flux in patterns of income distribution. But is this flux spread evenly across different sections of the population? What is the relationship between short-term flux and lifetime earnings and hence household incomes across the long term? Are the currently poor more vulnerable to flux, so that there is a correlation between current poverty and lifetime poverty, or is there so much flux across the board that lifetime earnings and household incomes in the long term tend to even out?

The 2000 Khayelitsha and Mitchell's Plain Survey (KMPS) was conducted in parts of Cape Town without either large 'middle-class' or farm-worker populations, but with a high unemployment rate (46 per cent by the broad definition, 29 per cent by the narrow or strict definition).[50] All of the adults in the KMPS sample – including the unemployed and people not presently participating in the labour force – were asked questions about what proportion of their weekdays since leaving school had they spent in each of a list of activities, including 'working as a regular wage earner', 'working as a casual worker', 'self-employed', 'working in the family business or farm', 'looking for work', 'domestic duties / child care', 'post school education and training' and 'other' (in which case, respondents were asked what this 'other' was).[51]

There are marked differences by occupational class (albeit using crude occupational classifications). Workers in 'higher' occupations (managerial, professional, technical, and clerical occupations) have spent a higher proportion of their lives in regular employment than those in 'intermediate' occupations (service and sales workers, craftsmen, and machinists), who in turn have spent a higher proportion of their lives in regular employment than workers in 'elementary' (unskilled) occupations.[52] The proportions of time spent looking for work show an inverse relationship. Thus 62 per cent of the workers currently in higher occupations had spent 'almost all of the time' in regular employment, and 61 per cent had spent 'none of the time' looking for work, compared to 39 per cent and 45 per cent of workers in elementary occupations. In short, the extent of 'churning' in the work history of people seems to be related to their occupational class. Given the close relationship between race and class (in Cape Town), these differences are reflected also in different patterns in the work histories of coloured and African workers.

The employment histories of currently unemployed African adults are quite distinct, exhibiting chronic disadvantage compared even with workers in elementary occupations. Almost half (45 per cent) of the African adults currently in wage employment said that they had worked as a regular wage worker for almost all of their lives, with another 22 per cent saying that they had done so for more than half of their lives. The corresponding figures for the currently unemployed were just 8 per cent and 10 per cent. The comparable figures for African adults currently in casual employment are similar to those who are unemployed.

Some of these differences might be related to age. African adults currently in wage employment have a very different age profile to self-employed African adults, for example. Analysis of employment histories by age cohort shows that each generation of African adults in Cape Town has experienced a high level of 'churning', but there remain marked differences within each age cohort between adults currently in wage employment and those who are currently unemployed.[53] The currently unemployed of all ages report higher levels of lifetime vulnerability. The spectrum of vulnerability to unemployment thus seems to run from people in the higher occupations at one end, through skilled and semi-skilled workers, to unskilled workers in the middle, then on to casual workers and the unemployed at the other end.

INTERGENERATIONAL MOBILITY AND THE REPRODUCTION OF INEQUALITY

The KwaZulu-Natal and Cape Town data suggest that there is a high level of flux in income due to movements in and out of employment but that this flux is uneven across people's working lives, with higher levels of flux among the poor than among the better off. Disadvantage persists across lifetimes. Is it also reproduced between generations? Are the children of poor parents destined to remain poor themselves?

In advanced industrialised societies there is typically some 'absolute' mobility, in that an expansion of 'higher' class occupations pulls in some individuals from lower-class backgrounds, but generally low rates of 'relative' mobility in that individuals from lower-class backgrounds are unlikely to reach higher class destinations relative to the individuals starting off in higher classes.[54] The picture for societies that industrialised recently (eg Poland, Ireland, Hungary, and Brazil) is more mixed. In some, the decline of agricultural employment (through the break-up of peasant agriculture) meant a sharp, more-or-less once-off increase in absolute mobility.[55] In others (including Brazil), absolute mobility has been high but stable, while relative mobility rates rose over time.[56]

Data on absolute and relative mobility rates in South Africa are scarce. Crankshaw has shown that there were steady shifts in the occupational division of labour in South Africa under apartheid.[57] The expansion of semi-skilled, then later skilled and white-collar employment meant new opportunities for upward mobility for many African people. There has surely been significant upward mobility between generations in *absolute* terms (as in Ireland and Poland). It is likely that the dismantling of racial discrimination under late apartheid and the onset of affirmative action after 1994 has also changed relative mobility rates. The steady shift in racial income shares up to and including the 1980s probably reflected changing absolute mobility rates, but the rapid changes in the 1990s must reflect changing relative mobility rates, at least by race.

Changes in absolute mobility rates or relative inter-racial mobility rates need not be spread evenly across all sections of the African population. Selective evidence suggests that public policy during the apartheid period not only stunted processes of class formation among the African population as a whole (through racial discrimination), but also shaped patterns of differentiation (and perhaps stratification) within the African population. Both 'revisionist'[58] and 'liberal'[59] writers emphasised the segmentation of labour markets between urban 'insiders' (with Section 10 residential rights) and migrant workers (without those rights). Urban 'insiders' and their children were in a better position to take advantage of the new opportunities opening up as a result of structural change in the economy and the erosion (or circumvention) of legal constraints.[60] By the mid-1990s the African population might be divided into discrete classes,[61] including an 'underclass' of households doubly disadvantaged in that they have neither any employed members nor the social capital necessary to secure employment.[62]

One area in which we have considerable data is education, which serves as a key mechanism by which inequality is transmitted or reproduced across generations. The relationship between education and earnings is well established.[63] The relationship between family background and educational attainment is also well established. Children's schooling (measured in terms of grade attainment at specific ages) rises with mothers' and fathers' education.[64] The combination of high returns to education with a wide dispersion in schooling explains a very large part of South Africa's very high level of inequality in the distribution of income.[65]

The relationship between family background and children's education can be analysed further in terms of class.[66] If we take 15-year-olds, for example, children in upper-class, semi-professional and intermediate-class households have, on average, completed grade 7, those in core working-class households have completed grade 6, while those in marginal working-class households have only completed grade 5. By the age of 19, differences have widened. On average, children in upper-class households have almost completed grade 11, while children in marginal working-class households are still some way short of completing grade 8. Class makes a difference of up to three grades by the age of 19. Given the importance of education in determining earnings, children from marginal working class backgrounds are much more likely to end up in marginal working class occupations, and children from upper-class backgrounds are much more likely to end up in upper-class occupations. Inequality thus tends to be reproduced over time.

The relationship between class and schooling is not dissimilar to the relationship between race and schooling: Indian and white children complete, on average, three grades more than African children by the age of 18 or 19.[67] Lam shows clear differences by race in the mean years of schooling and the percentage of each age group that has completed grade 7.[68] While there remains a close relationship between race and class, there are also marked differences in schooling by class even within racial groups. Fifteen-year-old African children in upper-class and semi-professional households have completed at least two extra grades, on average, compared to African children of the same age in marginal working-class households. By the age of 19, differences have widened slightly further.[69] The differences between classes taking African households only are very slightly smaller than taking all households, but there is nonetheless a very clear relationship: class affects educational attainment.

Children enter the labour market with very different amounts of human capital, reflecting both the time they spent in school and, no doubt, the quality of that schooling, as well as the home environment. In the past, poor children often left school early because of poverty: their parents could not afford to pay fees or buy uniforms, or children were required to find employment to supplement household income. Today, incentives to leave school have declined amid very high levels of unemployment and reformed state policy on fees.

Social capital is also important in securing employment. It might well be the case that people with identical educational qualifications have different prospects in the labour market today because of the different information, attitudes, and networks that they inherited or acquired through their contrasting social backgrounds. Almost two-thirds of a sample of African and coloured adults in Cape Town got their first job through either friends or family, and almost as high a proportion got their current or most recent jobs the same way. There is evidence from a range of sources that many South African employers fill vacancies primarily through word-of-mouth via their existing workforce.[70]

AIDS, INEQUALITY AND LIFE EXPECTANCY

As of 2003, an estimated 14 per cent of all South Africans were HIV-positive, with more than a thousand people dying each day of AIDS.[71] This is a socioeconomic crisis of major proportions. AIDS reduces the economic security of households by reducing the productivity of (and eventually killing) income earners, while simultaneously diverting scarce household resources towards medical expenditure.[72] Women are especially hard-hit because they carry the burden of the disease and yet are expected to care for other members of the household who are also HIV positive.[73]

AIDS in sub-Saharan Africa threatens food security directly through its detrimental impact on peasant agriculture.[74] By contrast, South Africa's experience of de-agrarianisation and the destruction of peasant agriculture under apartheid resulted in a situation where most food is produced by large, capital-intensive commercial farms. According to the February 2002 LFS, only 7 per cent of employment in South Africa was in subsistence and small-scale agriculture. The impact of AIDS on the economic security of poor households in South Africa is thus felt primarily through declining employment and earnings rather than food production.

AIDS-affected households are in a particularly vulnerable position as they have higher rates of unemployment and are more dependent on non-employment income, such as pensions.[75] This also suggests greater vulnerability to HIV/AIDS infection, disproportionate employment losses, and migrations to households with pensioners in order to be taken care of. All else being equal, households that lose a breadwinner through AIDS will fall further down the income distribution. If the job is taken by a previously unemployed person, then that person's household will move up the income distribution. The overall Gini coefficient will thus remain broadly unchanged. However, if firms react to AIDS by shedding employment, then the number of households without access to a breadwinner will rise, thus worsening the Gini coefficient. If average wages rise at the same time (perhaps in response to increased pressure from workers to compensate them for the burden of higher medical insurance and health expenditure, or perhaps because the average worker is becoming more skilled as firms get rid of unskilled workers first), then inequality will worsen further.

Different macroeconomic models come up with different predictions about the impact of AIDS on economic growth.[76] The Arndt and Lewis model assumes that government borrowing crowds out private investment and lowers growth over the longer term.[77] In the more Keynesian models of ING-Barings[78] and the Bureau for Economic Research (BER),[79] the increase in government spending is assumed to support growth by keeping consumption buoyant. ING-Barings, in fact, argues that if the government maintains strict fiscal discipline in the face of the AIDS pandemic (that is, does not allow the deficit to rise as a proportion of the GDP), then this would serve to drain demand even faster out of the economy, thus dragging down GDP (and government revenues) in a 'downward spiral'.[80] The Arndt and Lewis model, by contrast, assumes that such a downward spiral would not happen because private investment would increase.

AIDS slows income growth – but it also slows population growth. If the population falls faster than income, then per capita income will rise. But while this is theoretically possible, it is not common. Econometric research indicates that AIDS has either had an insignificant impact on the growth of per capita income in developing countries or has reduced it.[81]

According to De Waal and Tumushabe, AIDS is likely to increase inequality in Africa as, for example, some commercial farmers are able to buy up land cheaply from families stricken by AIDS and to employ unskilled labour at low rates.[82] In South Africa, employment in peasant or subsistence agriculture is extremely low and access to jobs rather than land is a key determinant of inequality. If firms react by continuing to decrease their reliance on unskilled labour (a trend that started before the AIDS pandemic), and by moving out of economic sectors whose customer-base comprises lower-income consumers, then poor households will find themselves doubly disadvantaged. Not only will their access to the labour market become ever more tenuous, but the products that they purchase may become scarcer (and more costly). Conversely, relatively skilled workers could benefit from greater employment opportunities (as production becomes more skill- and capital-intensive) and higher wages (as the relative demand for skilled labour increases). They will probably also live longer and more productive lives as firms begin to provide them with greater access to antiretroviral treatment. The size of the pie may shrink, but employed (especially skilled) workers will enjoy a growing share. Government employees also stand to benefit. Given the government's reluctance to embark on a national AIDS treatment programme, it is ironic that medical schemes for government employees make provision for providing life-prolonging antiretroviral treatment to those who need it. Government employees are thus in a better position than most to gain access to life-enhancing medication.

South Africa is increasingly divided along class lines, with the gap between the employed and unemployed being of major importance. The horrifying element that AIDS brings to the picture is that the divide will mean the difference between life and death for many people. Those without access to jobs (especially good jobs) will bear the brunt of the AIDS pandemic. Whether inequality will be lower or higher 20 years from now is a moot point. But over the next couple of decades, inequality will probably rise as AIDS lowers growth and slices its way through the poor and disadvantaged in South Africa.

OPPORTUNITIES, ATTITUDES AND POLITICAL CONSEQUENCES

Trends in inter- and intra-generational mobility, as well as in morbidity and mortality due to AIDS, suggest that the poor suffer enduring disadvantage in a range of respects. Children growing up in poor households are more likely to be disadvantaged in terms of both human capital (educational attainment) and social capital (connections in the labour market), to spend their lives in intermittent unskilled and often casual employment, and long spells of unemployment, and to fall sick and die, leaving dependents in an especially weak position. 'Churning' in a high-unemployment labour market – and high rates of AIDS prevalence – mean that even people with regular, full-time employment cannot be too confident of long-term income stability, but their prospects are much better than those from and in more disadvantaged settings. More room for African people to enjoy rapid real growth in earnings and income due to upward mobility has not meant that all African people face similar chances.

Current evidence on mobility suggests that the South African economy is something like a game of snakes and ladders. The snakes are the 'shocks' of job loss, the disability or death of a breadwinner due to AIDS, and perhaps also the experiences of crime and social obligations that wipe out the savings of entrepreneurs and inhibit capital accumulation. The ladders involve, above all, getting a job, but also, less directly, acquiring social and human capital. The snakes appear to be distributed fairly randomly, meaning that people in all sorts of social or economic positions are vulnerable. But the ladders are not distributed randomly. Relatively disadvantaged households are less likely to find ladders than relatively advantaged ones.

While little research has been conducted on how people in different positions in society assess their prospects, and perceive the possibilities and consequences of encountering either snakes or ladders, attitudinal surveys indicate that African citizens have been, in general, optimistic about the future, and are more positive (or less negative) than citizens in (say) Brazil in their assessment of the chances facing poor people to escape from poverty. They are also more likely to attribute poverty to laziness; and their support for the ANC has been closely linked to their optimism about the future. But, leaving aside methodological and evidential concerns, there are good reasons to doubt whether, less than ten years after the fall of apartheid, new patterns of stratification (in terms of opportunities for mobility as well as current position) are likely to lead to clearly differentiated social attitudes or political responses. The ANC is clearly adept at marshalling its resources – both symbolic, as in the charisma of the inimitable Madiba (Nelson Mandela), and material, as in the construction of new clinics and schools – in order to ward off electoral challenges. In local government elections, critical independent candidates have generally struggled to make headway against official ANC candidates even when the latter are regarded as having performed poorly. Even in the Eastern Cape, where the record of service delivery has been appalling, the provincially based, predominantly black-led opposition, the United Democratic Movement, managed to secure only 9 per cent of the vote in the 2004 elections. Anecdotal impressions suggest that discontent with the government over unemployment is becoming more politically consequential; but the more likely outcome of discontent is lower voter turnout rather than intensified electoral competition, and conflict over the symptoms of inequality (such as the cost of municipal services) rather than its causes. In the longer term, the pressures on the ANC might intensify, and with them the incentive for the ANC to tackle the factors that appear to trap so many families in disadvantaged trajectories.

The most obvious site of struggle over class is within the ANC alliance, between COSATU and the ANC itself. Some scholars view both the ANC and COSATU as having 'sold out' or 'betrayed' the more radical objectives of the anti-apartheid struggle.[83] Others see South Africa as moving instead towards a class compromise, in which business has done well but labour has also secured gains, notably through labour market policy. Nattrass and Seekings suggested that there was a 'double class compromise' in South Africa, in terms of which business secured broadly pro-business macroeconomic policies; the working class secured higher wages; and the poor, through the ballot box, secured pro-poor social policies.[84] However, some of the 'gains' apparently made by the poor were actually won by other social groups: much of the increase in pro-poor social expenditure after 1994 was an increase in teachers' salaries which did not improve the quality of schooling enjoyed by poor children. This points us to a central issue in the politics of redistribution in South Africa: the social groups with the political power to extract concessions from the state or capital are non-poor groups, like most of COSATU's members, living in households with incomes above the median but below the mean, and thus enjoying a position that is privileged relative to the poor.

The limits to change in the politics of distribution in South Africa are evident in two recent political controversies. The first is the debate – or rather non-debate – over the basic income grant (BIG). In 2002 the government-appointed committee of enquiry into a comprehensive system of social security for South Africa (the Taylor Committee) recommended that the government introduce a basic income grant, once the administrative systems had been developed. The government has not rejected the recommendation, but rather has suppressed debate (for example, in ANC conferences). The 'BIG coalition' brings together a range of human rights and church groups and COSATU, but only the unions are capable of mobilising mass support. The unions support the BIG in part out of self-interest, not because union members would benefit directly from the grant but rather because of the indirect benefits, in that the grant would reduce the pressures on workers to support dependent kin, and might also deflect criticism of the unions' demand for high wages (that arguably undermine job creation). But these indirect benefits are probably insufficient for the unions to threaten their alliance with the ANC. Unions do not organise the poorest of the poor, but actually represent relatively privileged sections of society that have done quite well since 1994.[85]

Second, several South African cities have seen a resurgence of so-called social movements, linked into anti-globalisation activist networks and mobilising around municipal services, including evictions and disconnections of electricity and water due to non-payment.[86] These mobilisations are typically single-issue protests and involve very localised constituencies. More importantly, they entail conflict over the symptoms (an inability to pay for services or housing) and not the causes of inequality (low-quality schooling, high unemployment, and government policies that undermine labour-intensive growth). It is difficult to see these localised and ephemeral conflicts cohering into a truly mass movement of any consequence; retrenched workers might grow into a radical social constituency, but this depends on them failing to secure new appointments.[87]

Electoral pressures might push the ANC-led government into pro-poor spending, but this is likely to be more discretionary (such as new schools, clinics, or public works programmes) than programmatic (such as a BIG). The uneasy balance of power among established 'white' business, aspirant 'black' business and organised labour is unlikely to shift enough to allow for major reforms in government strategy. Without policies that encourage the growth of low-wage jobs for the unskilled unemployed and promote the more efficient use of public spending on education, inequality is unlikely to diminish.

ENDNOTES

1 The full commissioned report upon which this chapter is based can be obtained, complete with tables and appendices, from the Centre for Development and Enterprise (CDE). Jeremy Seekings wrote most of the report and took overall responsibility for it. Neither Murray Leibbrandt nor Nicoli Nattrass can be held responsible for all of the interpretations offered.

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CHAPTER 5

SOUTH AFRICA'S NEW MIDDLE CLASS

Lawrence Schlemmer

Many factors will help to determine whether or not South Africa will achieve the sustainable economic growth and expanding opportunity that it needs to fulfil the needs and aspirations of its citizens. Prominent among them are investor confidence, substantial fixed investment and returns on capital, skills availability, the management of crime and corruption, expanding entrepreneurship and economic risk-taking, and the efficiency and effectiveness of government programmes and administration.

All of these driving forces feature prominently in policy debates and ideological disputes. However, they are often themselves the outcome of more complex underlying factors that are less well comprehended. Some emerging economies develop rapidly from a low base, some because of an abundance of particular resources such as oil, and others, such as emerging Eastern economies, because of disciplined adherence to forward planning and low-wage, high-productivity labour. South Africa, however, can no longer depend on these basic comparative advantages. It has a relatively mature economy, resource exploitation and agriculture are declining in their share of production, and labour costs are very high by emerging world standards. South Africa's diversified economy has to compete and grow while comprehensively exposed to all dimensions of global competition. The economies that lead the way are almost inevitably of the Organisation for Economic Co-operation and Development (OECD) type, in other words the highly developed economies of Europe, North America, and parts of the East.

These developed economies are also generally well-established democracies. Although the more general relationship between economic growth and democracy across all societies is complex, and riddled with contradictions, it is increasingly difficult to separate market freedom from the social and political freedoms that occur in symbiosis in the highly developed economies.

Democracy itself is as complex a phenomenon as economic competitiveness. Today most countries respect the formalities of regular elections and basic elements in the rule of law, but genuinely pluralist democracy is still encountered mainly in the highly developed democracies. There are vital distinctions in the social and economic climate within formal democracies that are not necessarily categorical or codified. They boil down to a particular quality of freedom. It is this quality of freedom that cannot be separated from the comparative advantages of the highly developed democracies, which almost inevitably include high levels of innovation; an emphasis on choice; reward for effort, talent, and creativity; sufficient trust in the system to take risks; respect for entrepreneurship; and high levels of individual confidence in general. These features are most frequently encountered in pluralist or liberal democracies with pervasive constraints on state intervention.

These constraints flow not only from the formal protection of rights but particularly from the muscularity of the diverse interests in society – a web of voluntary organisations which refuse to be pushed around. David Apter expressed the most basic distinction between societies that are in other respects formal democracies in the following way.[1] In pluralist democracies, the society is the 'independent variable' and the state the 'dependent variable', while in what he termed 'pre-democracies' it is the other way around – the state, whether effective or not, looms large, and the interests of power elites (or religious elites aligned with the state) impose formal or informal constraints on freedom of choice and initiative in the society.

For society to acquire the countervailing influence to assert its independence, as it were, two developments are vital. First, because mass society is generally powerless (except at election time), major segments of it have to become organised, as in trade union organisation, for example; and second, voluntary organisation around interests is necessary as a basis for an effective 'civil society'. Voluntary organisation requires skill and self-confidence not typical of the poorer masses. Hence a developed and established middle class, independent of the state, is usually necessary for the empowerment of civil society. Social organisation and a self-confident middle class are the underpinnings of the socioeconomic and political pluralism that gives society the flexibility to adapt to economic challenges.

Following a literature review, Carlos Rivero, Pierre du Toit, and Hennie Kotzé point out that these effects are also undergirded by the fact that, after periods of heightened inequality at earlier stages of growth, large and economically powerful middle classes are often associated with lower levels of inequality in a given society.[2] This in itself reduces social tension, and protects the stability and predictability of the economic environment.

Middle classes have been commended, in virtually all but revolutionary socialist and other authoritarian regimes, for their allegedly healthy social, economic, and political attributes. Among others, S N Eisenstadt and David Apter have set out in some detail the roles of sections within the emerging middle classes in developing societies in countervailing the hegemony of top political and economic elites.[3] Their influence is based not on their identification with the power of big money and big politicians, but on knowledge and the control of information.

Left-leaning commentators in South Africa and elsewhere often challenge or qualify these arguments on two grounds. The first is that the organised working class and its linked intelligentsia play a more important role than any middle class formations in checking the power of the bureaucratic state. This is certainly plausible in South Africa, where the labour-linked organisations within the ANC alliance are more verbal than the middle class in challenging the executive authority of government on issues of the rights of workers and the poor. The second is that key sections of the middle class, often referred to as the 'neoliberal' moneyed elites, have the leverage to manipulate the market to suit their interests, both nationally and internationally. This is the dark side of the middle class, as it were, and it is argued that these elites are at least as dangerous a threat to the quality of democracy as a hegemonic state.

Both these arguments have to be taken seriously. In South Africa, current critical tensions seem to be generated by working class movements, the new black super-capitalists in their partnerships with established white capital, and the forceful top executive echelons of the state, with the last-named often assuming a defensive and contradictory role. The pluralist argument, however, would be that however these tensions resolve themselves, they are likely to produce new forms of solidarity or manipulative power that would not advance the cause of openness or freedom in our democracy. The best chance of achieving a society in which all interests can express themselves freely would be a system of muscular checks and balances engendered by the voluntary activity of an independent and confident middle class below the level of the labour, capitalist, and political elites. This middle class, as depicted by Apter, is multibonded and diverse, and therefore unlikely to impose any new forms of political solidarity and conformity.

The more general point is that modern, independent middle classes are diffuse and less prone to reflexive solidarity than less and more advantaged classes. Apter sees their major role as 'transforming issues of value into negotiable interest' and thus encouraging the development of democratic pluralism. Their attributes are generally associated with economic growth (self-sufficiency, deferred gratification, saving and hence fixed investment, net contributions to tax revenue, etc), as well as political pluralism and constructive activism in civil society (education and socialisation, political participation, and the articulation of interests).

These latter assumptions hold in many circumstances, despite examples of middle-class extremism and/or political conformity with authoritarianism. Middle classes in Nazi Germany and the white Afrikaans-speaking middle class under apartheid are cases in point. In the latter case, however, the middle class was not independent, being substantially a product of the promotion of Afrikaners within the civil service.

As a result it is not only by means of public policy, exhortation by leaders, legal sanction, or patriotic commitment that the drivers of economic growth can be enlisted. Social engineering, no matter how elegantly conceived, expertly informed, or fervently advocated by leaders, has limited effects if embedded features of the social fabric and political culture drain the economy of confidence, trust, and 'social capital'.[4] The argument in this analysis, therefore, is that the conditions for an accumulation of social capital and the confidence necessary for dynamic growth are most reliably promoted by the influences generated by large and expanding middle classes outside the structures of the state.

A particular problem exists in South Africa today, however. The post-apartheid government elected in 1994 has based virtually its entire programme on a discontinuity with the past, part of the effect being to label and discredit the large established middle class as a collective beneficiary of apartheid, despite the fact that without the influence of this middle class a negotiated resolution would have been impossible in South Africa. Much of the influence of South Africa's established, mainly white, independent middle class has been curtailed by this very pervasive and systematic emphasis on the 'transformation' of the country. Hence one looks to new developments that will begin anew to countervail the currently pervasive influence of the state.

EMERGING SOURCES OF INFLUENCE – THE NEW MIDDLE CLASS

Who are the potentially influential South Africans, the nature of whose self-interest will be particularly crucial for the economic future? One category in particular will have a central impact – the 'emerging', 'new', or black middle class.

The belief in the importance of the African middle class has long had a powerful and widespread leverage in political discourse. In South Africa in the 1970s and 1980s, corporate executives active in the Urban Foundation used to extol the value of promoting an African middle class on the somewhat oversimplified assumption that it could serve as a bridge across racial divisions and encourage more sympathetic attitudes to private sector business in the future.

A major question for this study to try to answer is whether the particular conditions for the emergence of a new African middle class in South Africa will promote the pluralism that Apter and the other authors listed above describe. South Africa is not typical of the pre-democracies that Apter studied.

South Africa is more advanced towards a pluralist democracy than Apter's cases, but it is far behind typical pre-democratic developing societies in terms of basic national integration. The liberation struggle in South Africa was not against external colonial domination, but against what the ANC called 'colonialism of a special type' – the internal domination by a settler-based racial oligarchy. That struggle ended in 'liberation of a special type', the compromise victory of a mainly orderly, negotiated political settlement. Its aftermath, as already mentioned, is the contested and ambiguous terrain of 'transformation'. Under these conditions, the rapid emergence of a new middle class in South Africa is taking place through a politically sponsored process backed by legislation. This makes the significance of its emergence a matter of great importance, especially whether or not it will have the salutary pluralist effects outlined above. A critical question, then, is whether the more universal processes of declining fundamentalist solidarities that both Eisenstadt and Apter describe are occurring in the politically sponsored new middle classes in South Africa.

THE AFRICAN AND OTHER MIDDLE CLASSES IN SOUTH AFRICA TODAY: SIZE, SHAPE, AND GROWTH

How does one define the South African middle class and the emerging African middle class in particular? Answers cannot be categorical. Max Weber's concept of class – as the outflow of complex interrelationships between status and power, based not only on ownership of property and capital, but also on market relations, educational credentials, and other elements of social prestige – reminds us of this.[5]

The demographic boundaries of classes cannot be mapped with complete authority and precision. There is a continuum of remuneration, decision-making, and co-ordinating power through the upper class, the upper middle class, the middle class, and the lower middle class. With the emergence of more complex technical information and production processes, the boundaries between the working class and the middle classes are equally blurred. Hence setting the boundaries of the South African 'middle class' is to a large extent an arbitrary exercise.

One of the more elusive aspects of the new African middle class in South Africa is its size and occupational composition at the lower end. Impressionistic reporting, past and present, is unhelpful.[6] In the high-key motivational publication *South Africa, more good news*, participating author Teddy Langschmidt gives median Living Standard Measure (LSM) estimates for the races but does not extract estimates of Africans in the top LSM categories. However, he gives an estimate of the proportion of African earners in the highest 10 per cent of incomes in 2001 as 16 per cent, but the highest 10 per cent of incomes includes many people earning less than R5 000 per month, hardly a core middle class.[7]

Generally, analysts have focused on the entire middle class, which includes many low-paid white-collar workers such as clerks, sales people, all school teachers and nurses, including nursing assistants, and the huge variety of agents and people in inspectoral positions. This inclusiveness has allowed Roger Southall of the HSRC, for example, to calculate that the African middle class numbers somewhere in the region of 2,5 million people. He acknowledges the imprecision of these estimates, however: '... even now 'guesstimates' of the present size of the black middle class vary considerably. Others have suggested that it has grown to some 3,6 million.'[8] Rivero et al combine the 'old middle class' or petit bourgeois occupations and the new middle class of white-collar occupations, bounded by the second to fourth income quintiles, to arrive at an estimate of the black middle class as 7,8 per cent of blacks in 2000, which would have amounted to more than 1,6 million people.[9]

A review of recent press coverage of the new middle class also generally reflects a definition that includes the lower middle class, with monthly household incomes down to R6 500.[10] This review points to rapid growth of this inclusive class composite – 20 per cent over the past three years, for example, now totalling some 3 million people – and it correctly concludes that the new spending power has had major positive impacts on demand for banking services, for suburban properties (boosted by employer housing subsidies), and for a variety of consumer goods. While the mushrooming of the white-collar class is an impressive phenomenon, one cannot assume that an army of clerks and other routine functionaries has the economic security and the sense of self-reliance to drive an active civil society. The review quotes trade union economist Neva Magetla warning against the frequent assumption that South Africa's white-collar explosion is at a level equivalent to the middle classes in the rich countries. The political presence of the new middle class looms much larger than its numbers or its economic strength.

For the present analysis, therefore, these definitions and estimates, whether accurate or not, are simply too inclusive. Millions of routine employees, no matter how clean or dignified their occupations, and now matter how much the retail sector is benefiting from the massive consumer debt they are accumulating, are simply not sufficiently independent of the state, of trade unions, or of employers generally to become meaningful agents of social change on a voluntary basis. The view taken in this analysis is that the middle class has to be narrowed to include mainly those categories of people who might feel that they have some bargaining influence on the basis of their individual statuses. Hence we have to exclude routine white-collar employees who really only can acquire influence on a collective basis.

In estimating size, empirical sociologists have tended to impose cutting points based on clusters of broad similarity within the status hierarchies. The resulting systems of status classification are typically as follows:[11]

1. **The upper class**: owners of large-scale capital; the very highest status elites, often based on substantial inherited wealth; a top order of highly esteemed politicians; and the leading incumbents of important or esteemed institutions.
2. **The upper middle class**: senior executives in large businesses, the high professions (judges, bishops, surgeons, and other professionals that tend to be paid very high fees rather than salaries), and very senior administrators in the public and semi-public sectors.
3. **The 'middle-middle' class**: most middle-level executives; owners of medium-size businesses or small businesses that are capital, technology, or knowledge-intensive; most salaried full professionals; and the middle management levels of the public and semi-public sectors.
4. **The lower middle class**: small business owners, clerical and sales workers at responsible

levels, modestly paid salaried professionals such as school teachers and nurses, technicians, and skilled white-collar service personnel.

5. **The working class:** blue-collar employees at both skilled and semi-skilled levels.
6. **The lower working class:** elementary and other very low-skilled workers.
7. **The underclass:** chronically unemployed people in ad hoc or informal sector survival activity.

Problems of definition are compounded by lack of good data. An essential first step is to consult the South African census. However, the 2001 census can give only a very approximate indication of the relative size of the black or any other middle class. The indicator of income is particularly approximate due to underreporting. In addition, due to overlaps in occupational categories between the levels, the census classifications cannot be subdivided in a way that would give meaningful occupational status categories throughout the range and in comparison to previous censuses.[12]

What the 2001 census tells us, then, is that slightly under a third (32,4 per cent) of occupations of Africans in 2001 were broadly lower middle class and above, 38 per cent among coloured people, nearly 70 per cent among Indians, and more than three quarters (76,3 per cent) among whites. In terms of occupational status gains, Indians have made the most rapid progress since 1996 (up from 53,6 per cent) followed by Africans (up from 25,7 per cent) and coloured people. Whites have made the slightest gains, but the occupational levels of whites are so high in relative terms that the group is reaching socioeconomic status 'saturation' in which further gains are necessarily limited.

These estimates are not particularly useful because they lose important status differentiation. The problem is that the lower middle class dilutes the results unduly. This is especially true because much of it has acquired characteristics of the unionised upper working class. Shop assistants, schoolteachers, nurses, and a wide array of white-collar service workers have been drawn into a powerful trade union culture in South Africa, as elsewhere.

To compensate for the imprecision of the census, this study used the results of the very large (n25 000) All Media Products Survey (AMPS) of the South African Advertising Research Foundation (SAARF). Because the AMPS surveys are conducted twice yearly and are well used to estimate important aspects of consumer behaviour, they have established considerable credibility. The main AMPS survey used is that released during the time of initial drafting, in late 2003.[13]

Three measures have been inspected in setting out to estimate the middle class, from middle-middle upwards. These were: educational level, an occupational measure based on the typical hierarchy, and a combined index of income and standard of living, to exclude the lower middle class and isolate the 'middle-middle class' upwards. In table 1 below, the proportion of each race that has been distinguished as 'middle class' is extracted for each of three measures, and the criteria applicable to each are specified. The evidence suggests that the LSM plus an income filter seems best able to identify people whose economic circumstances and lifestyle set them aside from lower-middle-class people.

Table 1: Three estimates of the size of the middle class as a proportion of the total in each of the four categories of race: source AMPS 2003B

Basis of estimates: Proportions of the total in each race group	Blacks	Coloured	Indian	White	Total South Africa
Education: Graduate, professional, and equivalent technical qualifications	3,1%	5,2%	10,0%	23.1%	6,2%
Occupation: (of employed only)Higher technical, executives, high administrators, professionals (senior teachers and higher)	3,0%	8,8%	16,1%	30,6%	7,8%
LSM* 9 and 10, with a household income of R12 000+ pm	0,6%	3,6%	9,6%	30,9%	5,3%

**The 'LSM' categories are based on housing quality, possessions, household equipment and appliances, purchasing habits, etc. Only the top two categories, 9 and 10, conform to an established middle-class lifestyle.*

In terms of living standards and income combined, the reducing but still existing racial inequalities in South Africa are very clearly exposed and, in table 2 below, we get the following picture of the racial anatomy of the 'middle-middle' class and above in late 2003.

Table 2: The racial composition of the South African 'middle-middle' and upper middle classes combined, late 2003: source AMPS 2003B, based on LSM 9 and 10 with an income filter of R12 000 pm or higher household income

	Estimated numbers, 16 years or older	Percentage shares
Africans	135 107	8,6%
Coloureds	87 895	5,6%
Indians	74 495	4,8%
Whites	1 269 633	81,0%
TOTAL middle-middle class and above: all South Africans	1 567 130	100,0%

The table shows that despite rapid recent improvements in occupational status, compared with the established white middle class, the African middle class proper in late 2003 was still tiny. So were the Indian and coloured middle classes.

There have been much more optimistic estimates of the relative size of the African middle class. For example, Rivero *et al*, using HSRC survey evidence from 1994 and 2000 (n2250 and n2666), estimate the African middle class at 3,3 per cent of all African adults in 1994, rising to 7,8 per cent in 2000. This compares with this study's estimate of the African middle class as less than 1 per cent of the entire African adult population in 2003. The reason for the difference is that Rivero *et al* include clerks and sales workers, and their estimates have no income filter.[14]

Put differently, families with incomes of less than R12 000 per month living in urban areas may not be poor, but they have constrained household budgets, their discretionary spending is limited, and they have to expose themselves to considerable debt in order to acquire the accoutrements of a middle-class lifestyle. They are marginal to the core of the middle class and hence this study excludes them. They are a sociologically distinct 'lower middle' class.

An interesting study by Burgess called *SA's tribes* provides independent confirmation of the relatively small size of the solid black middle class.[15] This research established a sophisticated segmentation of the South African consumer market, based not only on objective indicators, but a range of values and psychological orientations relevant to lifestyle and behaviour. The data were obtained from a national survey of 3 500 individuals in households in 2001. On the basis of a cluster analysis, the author extracted seven segments of the consumer market at roughly middle-class levels and above. Four are in what he refers to as the 'urban middle class' and three are in the 'urban elite'.

The survey results show such insignificant numbers of African in the latter category that they are not separately specified. In the urban-middle-class category, he extracts two segments that contain small proportions of blacks. These segments are called 'Suburban Bliss' and 'Suburban Challenge', and they have the following features:

- Suburban Bliss: 3,6 per cent of the adult market, composed of whites 67 per cent, coloureds 27 per cent, Indians 2 per cent and Africans 5 per cent; mean household income R10 370 per month, top two LSM categories, and values consonant with class position.
- Suburban Challenge: 2,6 per cent of the adult market, composed of whites 70 per cent, coloureds 18 per cent, Indians 5 per cent and Africans 8 per cent; mean household income not given but top two LSM categories, values consonant with class position and achievement orientation.

In these, the only two segments in which Africans have sufficient numbers to be specified, the African adults are 5 per cent of 3,6 per cent of the adult market in one segment and 8 per cent of 2,6 per cent in the other, which means that Africans that enter this definition of the middle class are a mere 0,39 per cent of the total adult market, or 115 000 persons, using the 2001 census for an estimate of the size of the adult market. This figure would be broadly consonant with our estimate of 135 000 in 2003.

What, however, is the rate of growth of this tiny core African middle class? It has not been possible to apply the exact economic filters as used in 2003 to earlier LSM data. Furthermore, a change in the LSM definitions also complicates comparisons over time. Until 2001, LSM 8 was the top category and the grading was subsequently extended to 10 categories. However, the 2003 results with old weightings are available for inspection.

The top LSM category with old weightings (category 8) in 2003 contained 129 000 African adults, a figure very similar to the 135 000 African adults identified using the later LSM 9 and 10 categories with an income filter. Therefore it is possible to use LSM 8 with early weights as a surrogate measure of the core middle-middle class and higher. Data have been extracted from the 1993 AMPS survey to compare with 2003 and the comparison over time is presented in table 3.

Table 3: Comparison of the numbers and proportions of Africans in the top LSM category 8 (original weights) in 1993 and 2003: source AMPS surveys, 1993 and 2003

	Estimated total adult population 16+ (000)	Estimated numbers in LSM 8 (1993 weights) (000)	Proportion of all African adults categorised in LSM 8	Annual rate of growth of LSM 8 population 1993 – 2003	Annual rate of growth of entire adult population
AMPS 1993	17 270	19	0,11%		
AMPS 2003	22 324	129	0,58%	21,1% pa	2,6% pa

We note from these results that the growth of Africans in the top LSM category has been a phenomenal 21 per cent a year over the decade to 2003, over eight times the growth in the adult population. If this rate of growth were to continue, and if applied to the estimate of 135 000 Africans in the core middle class in 2003 (table 2), by 2013 there will be 916 000 Africans in the core middle class and higher. This would be over 70 per cent of the current numbers of middle-class whites and it would be substantially larger than either the numbers of white English-speakers or Afrikaans-speakers in the middle class today.

The most recent growth has been even more rapid – indeed, explosive. According to the latest available AMPS survey, conducted in late 2004 (2004b), the estimated 135 000 Africans in LSM 9 and 10 with the income filter in 2003 has grown to roughly 185 000 in the 12 months to late 2004, amounting to a growth rate of 37 per cent over the year. However, this growth rate, or even that achieved between 1993 and 2003, cannot possibly be sustained, due to skills and educational constraints as well as the fact that the transformation of the public and private sectors will slow down as targets are achieved.

The future rate of growth of the African middle class is impossible to estimate without exhaustive research into educational output and the absorptive capacity of the higher end of the labour market. Suffice it to say, however, that even if growth slows down to a more sustainable rate of about 10 per cent to 12 per cent a year, in a decade the core African middle class will have a demographic 'presence' almost equal to that of the current English-speaking white core middle class, which is unlikely to grow very rapidly from now on. If the economy grows more rapidly, this 'presence' will emerge sooner. Therefore, within ten years the South African middle class as a whole will change significantly.

However, as we have seen, the core African middle class is still very small – 9 per cent of the South African core middle class in late 2003, and rising very rapidly but to a still rather small proportion of around 11 per cent in late 2004. This reality – and the sense of both vulnerability and relative deprivation that it doubtless engenders – must surely underlie the current pressure for rapid race transformation and black economic empowerment. Even at the present rate of growth, this pressure – applied through political and moral clout – is not likely to abate until well into the next decade.

Empirical studies of attitudes and expectation can offer a guide to how this leverage might be deployed.

RELEVANT EMPIRICAL EVIDENCE: 1994 ONWARDS

This section briefly summarises survey material relevant to the attitudes and expectations of the emerging African middle class as it has been defined thus far. In this section the African middle class is treated inclusively (ie, including the lower middle class), but in the following section, the lower middle class is excluded as discussed previously. The studies have been chosen because of they are conducive to socioeconomic breakdown and not merely by racial category.

MarkData/Schlemmer surveys: 1994, 1996

These national surveys were carried out by the present author in collaboration with the market research and survey company MarkData. For the purposes of the research, the inclusive middle class was defined on the basis of categories such as:

- post-matric schooling;
- monthly personal income R2 500+;
- LSM 7/8+;
- independent professionals; and
- semi-professionals.

Certainly these cover a wider range of occupations, incomes, and statuses than the 2003 empirical study, the findings of which form the focus of this paper. However, the summarised responses across a range of economic, social, and political issues offer introductory insights and an understanding of the social climate below the middle class proper.

The economy, government and the private sector

Responses under this category suggested that the inclusive middle-class Africans were marginally more interested in economic concerns and in favour of private sector-based development than the population at large, but with important qualifications. The trend was not very marked, and the higher-status category of independent professionals appeared to be ambivalent (for instance, 61 per cent of them believed that the government should 'create work for the unemployed at high minimum rates'). And this emerging class seemed more inclined to want more government regulation of business than the population at large. No category of the emerging 'middle class' favoured business freedom any more than the African population average and the population minorities endorsed economic freedom significantly more. It was difficult to avoid the conclusion that the trend in these emerging 'lower middle' and higher classes was to want the market to be so controlled or guided by government as to favour their interests.

Redistribution and allied topics

On the broad issues of equality and redistribution as a government responsibility (especially in favour of those disadvantaged by apartheid), the responses of the inclusive middle class categories were very mixed, with some categories significantly less in favour of the principle than African adults in general. Generally, the independent professionals and the top LSM groups were more in favour of equalisation and redistribution of wealth than the population at large, however. Contradictions were also apparent on questions related to racial balance in public and private affairs, and the position in this respect can only be described as complex. Independent professionals wanted more Africans in power, but they were less concerned with affirmative action than the general population. White-collar categories wanted both affirmative action and more whites in public office. Generally speaking, the middle-class groupings were somewhat less in favour of specially engineered African advancement than the general population, and were not markedly more insistent on a greater African dominance in government, with the exception of the independent professionals on the issue of Africans in public office.

In similar vein, in the 1996 survey, respondents were asked to indicate support for the notion that *'South Africa is mainly a country for Africans and others should take second place'* (vs equal and non-racial status and access to opportunity). The pattern here was that the lower-middle categories supported the notion more strongly than the general population, and the middle class somewhat less strongly than African adult voters in general. It would seem, then, that the lower middle status groups tended to favour African entitlement, and that middle class and professionals were less concerned about it than the general population. The professionals, however, were certainly more concerned about the issue of increasing the political dominance of Africans relative to whites.

Democratic opposition

This critical issue is one on which the middle class is normally assumed to be distinctive in its support. Combining insights from the 1994 and 1996 studies, indicators of support for the principle of democratic opposition produced very mixed signals from the inclusive African 'middle classes'. At best, there was a slight increase in support (in the 1996 survey) for the principle among some of the higher status groups, mainly the high consumption categories, but with the professionals rather inconsistent in their views.

On the related matter of the issue of a vigilant and critical press, the population support was at no more than 16 per cent, but with the top LSM group at 29 per cent and independent professionals at 22 per cent. The other categories were not meaningfully different from the general population. This was not a particularly encouraging indication of support for underlying cultural conditions of democracy and pluralism.

Drawing together these various indications suggests that any assumption that the emerging African middle classes, inclusively defined, were closer to the interests and values of the established (white) middle class would have been misplaced. The emerging African middle class at the time, to the extent that there was any coherence of positions within it, was marginally closer to the views of the established middle classes in regard to business, provided it was regulated; slightly less concerned with redistribution policy; and slightly closer in support of the principles of critical political opposition and law, order, and social discipline. In many areas, however, the high-status professionals were inconsistent and ambivalent. There was also a strong thread of 'entitlement' running through the lower middle class, which weakened in the higher status groups, but the professionals in a sense 'compensated' with a relatively intense concern with African political dominance.

The relatively marked materialism of the middle classes was a reminder that it was very much a new and insecure emerging 'middle class' with a great deal of catching up to do in terms of establishing a sense of material security. Like most new middle classes, it seemed also be very concerned with the acquisition of visible status goods.

In general, the impression created by the evidence of these surveys was that by 1996 there was only limited convergence between the new and the established middle classes on some issues and that a fairly large gulf remained. Furthermore, on some very sensitive issues there were categories in the emerging middle classes that diverged very sharply from what might be regarded as typical white-middle-class patterns.

2001 survey of race relations

More recent evidence is available from a national survey on issues concerning race relations undertaken on behalf of the South African Institute of Race Relations in July 2001.[16] This study included items dealing with the issue of racial preference and affirmative action as opposed to respect for equality of opportunity. The results once again allow one to assess the extent to which Africans in the emerging middle classes, inclusively defined, are more likely than others to respect merit and rights of equality of opportunity in the marketplace. Five of these items have been combined to form a small scale in order to give greater stability to the patterns of response.

The items were:

- South Africa is a country for blacks, and whites will have to learn to take second place.
- Whites should be forced to make sacrifices for black progress and advancement.
- Policies for affirmative action and empowerment of black people do not go far enough.
- Affirmative action and equity policy are a new form of racism and discrimination like job reservation in the past.
- Different races in South Africa need each other to make progress and there should be full opportunities for everyone of all colours.

Each item allowed a response of strongly agree, agree, disagree, and strongly disagree, and the responses were scored in a non-racial, open-opportunity direction. The cumulative scores, which allowed for strength of agreement or disagreement for black respondents as a whole, and for the emerging higher status groups, were as follows:

Table 4: Strength of commitment to open opportunity and equality of opportunity on five items: cumulative %

All Africans:	381%
Tertiary qualifications:	429
Highest LSM	506
Second highest LSM	418
R8 000 pm or more gross household income	465
Professional, semi-professional, officials, etc	386
Clerical, sales, and other white collar	385

These scores suggest that the professional, semi-professional, and equivalent groups, as well as the white-collar category, have no stronger commitment to open and equal opportunity than others. These categories include many teachers, nurses, officials, and other categories that are either unionised or have an affiliation to the state. Independent high professionals are a minority within the category. These results suggest that these categories, which are perhaps the largest 'middle class' groupings, are no different from the African population at large in their orientation to equality of opportunity and respect for the occupational 'market'.

All the other emerging higher-status categories displayed a higher level of commitment to equality of opportunity than the population at large, and their responses in general were what one would have expected among persons having achieved greater socioeconomic success. The highest commitment comes from the multi-dimensionally based top lifestyle (LSM) category, followed by the highest household income category. The second-highest LSM category is relatively low in commitment, partly because it earns its place substantially through credit purchases, and also includes many teachers and officials.

The results overall are modestly encouraging for anyone expecting that socioeconomic progress will result in a greater convergence of 'middle classes' on issues of economic growth and development. At the same time, however, the extent to which the emerging higher-status Africans differ from the rank and file is not very large, and all the evidence briefly reviewed shows great inconsistency between educationally, occupationally, materially, and lifestyle-based class groupings. Although detailed comments are not appropriate at this point, the warnings in the background literature that professionals will often adopt radical postures, that routine white-collar workers can develop 'working class' solidarities, and that many middle-class segments will sacrifice longer-run interests for short-run occupational mobility, seem highly relevant to the South African situation.

The Møller/Arnold Bergstraesser Institute survey, 2002

A particularly useful recent analysis was undertaken by Valerie Møller of Rhodes University in collaboration with the Arnold Bergstraesser Institute in Germany. The study was based on nationwide fieldwork commissioned in 2002 through MarkData.[17] This study allows comparison of the responses of the inclusively defined African middle class with those of the rank and file. The inclusive African middle class is somewhat erroneously called the African (black) 'elite' in the paper and it was based on those with LSM scores of 8, 9, and 10. As a result, the category included many respondents that would have been lower middle class (LSM 8 and some 9). The pattern of selected results can be summarised as follows:

The African lower to upper middle classes on average are reasonably satisfied with life, and even more satisfied with progress over the past decade. They tend to see their society through the lens of class rather than race, and are only moderately committed to ethnic identity and religion. Their feelings of relative deprivation are higher than those in the established middle classes dominated by whites and Indians, but less than those of the African rank and file.

Their views on merit as the basis for appointments tend to be mixed, however, and their approval levels of multi-party democracy, freedom of enterprise, the independence of the judiciary, and private ownership of business are also lukewarm on average.

In this respect, this broadly defined category of African middle-class people have mixed and ambivalent views about the values that are often associated with political pluralism and economic growth. However, the fact that the respondents in Møller's elite category straddle the lower-middle, middle, and upper-middle-class categories might go far to explain the ambivalence.

We have to look at more recent evidence to see what the situation is among the African middle class proper and it is this that we now turn.

A NEW EMPIRICAL STUDY, 2003[18]

For this project, a special survey was undertaken of the attitudes and orientations of the 'core' African middle class in South Africa today, based on a dedicated sample of the categories that would conform to the definition of the 'middle-middle' class and above applied in the above discussion of class segmentation.

This study was focused mainly on the ways in which this emerging middle class is oriented towards business and economic growth in general. It also included issues in the social dynamics of African-middle-class life that are relevant to governance and a competitive economy. It is the first major study undertaken specifically within the new middle class, carefully defined, and the way that it is positioned relative to the socioeconomic challenges facing the country.

The samples

The research is based on two samples. The first was an all-race nation-wide stratified probability sample that is part of the MarkData Omnibus series, a syndicated research product of long standing. The size of this sample was 2 268 households, with one adult respondent selected randomly within each household. A brief selection of questions from the specific study of the African middle class was included in this general national sample in order to provide an assessment of how the African middle class is positioned relative to the wider inclusive African middle class and Africans in general.

The second study was based on a dedicated African-middle-class sample of 200 cases. Here the interviews were longer and conducted in greater depth. The items included in the larger national sample were also included in the fuller range of questions for the dedicated middle-class sample. Hence, although the responses of the African middle class in the second study cannot be compared with other population groups, the few items common to both samples – bridge items – allow some comparisons to be made between the African middle class and people in the wider society.[19]

The core middle-class category was defined as follows for operational purposes:

- people with 'high' professional occupations, including secondary school principals, academics, and scientists **(n27)**;
- senior executives in large companies and semi-state organisations **(n21)**;
- owners of small and medium-size formal businesses **(n18)**;

- senior officials in the central, provincial, and local administrations **(n35)**;
- elected representatives in central, provincial, and local government **(n30)**;
- senior trade union leaders **(n17)**;
- senior journalists **(n11)**;
- priests, ministers of religion, and pastors **(n10)**;
- senior personnel in welfare agencies and NGOs **(n8)**; and
- civic leaders and leaders in residents' and ratepayers' organisations as well as school governing bodies **(n23)**.

This operational demarcation of the 'middle class' covers the types of occupations normally regarded as upper middle class as well as middle class. The coverage of 'civil society' organisations also means that it has a strong flavour of opinion leadership as well as class affiliation. In fact, due to the relatively small size of the African middle class proper (see earlier), virtually all its members are simultaneously members of a class and an opinion leader grouping. Hence it is referred to as a African 'middle-class opinion leader' group (MCOL).

It may have a somewhat more political flavour than the middle class in the society as a whole because of the (deliberate) over-representation of elected representatives. Otherwise, its breakdown is broadly in proportion to the Africans in middle class occupations and higher. The proportional breakdown of occupations in this category of people has not been officially estimated and therefore it is impossible to be precise, but to judge from MarkData surveys over time, the sample selected is a roughly proportional cross-section of the African middle class.

It has been chosen as the categorisation of leading Africans that is most likely to be influential behind the scenes, as it were, in shaping reactions to policy and socioeconomic challenges in the country.

The general purpose of the study was to achieve a portrait of the emerging African middle class that includes dimensions of self-image, as well as attitudes to other forces and groups in society, including government, political parties, and the white middle class.

Key points

Key points that emerged included:

- This is a relatively very small class, the beneficiaries of rapid mobility, fast growing, but not yet consolidated and secure in terms of assets, status, and self-image.
- The study identified considerable variation in attitudes and dispositions towards key social issues as well as other forces and groups in society.
- Inconsistencies show up in two respects in particular: attitudes to business and private enterprise, and principles and policies of non-racialism and affirmative redress.
- However else the emerging African middle class might be characterised, it is not a subset of, nor an increment to, the established (white) middle class.
- Respondents did not designate affirmative action and other race-based transformation policies as 'factors making for personal success and advancement' in an open-ended question. However, when such alternatives were offered, 38 per cent chose them. Forty per cent of the

middle-class sample believe that stronger government policies for African advancement are needed.

- Strong identification with the ruling party, and disinclination to consider supporting any other political party, co-exists with quite widespread discontent with the outcomes of government policies.

Some of the more detailed features that emerged from the survey and contribute to the profile of the emerging African middle class are presented below.

Status and self-image

Almost as many respondents (31 per cent) described themselves as working class as middle class (34 per cent) – and 5 per cent of them chose the category 'the poor'. This downward self-reflection of status is consistent with a society that espouses egalitarian and anti-elitist values (similar results are recorded in surveys in the United States). They are also consistent with members of a class who, despite enjoying high salaries, have not accumulated substantial consolidated assets. All subsequent evidence and inferences drawn from it, should be interpreted in the light of the fact that many of the people interviewed rate highly on material benefits and social influence, but do not wish to identify themselves in ways consistent with this objective status. This tendency carries over into responses to questions about which occupations the subjects admire. Small business people, technicians, and artisans figure highly in these responses, along with clearly expressed admiration for political leadership figures.

Social mobility and networks

Patterns here are of very rapid social mobility. Occupational leaps of some magnitude were common. Only 41 per cent of previous occupations (and 35 per cent of the second last) were at a level equal or reasonably close to the present position. Some 20 per cent of the respondents had not had previous jobs, and hence they had been catapulted out of unemployment (perhaps in the form of full-time activism) into leading positions.

In terms of networking, a familiar pattern of middle-class-status consolidation could be discerned in the high preference for non-family members among closest associates, and relatively high numbers whose closest associates are at or near the same occupational level. Therefore despite the subjective continuity with the wider community, the middle class is objectively closing ranks to a considerable degree.

Values

The sample confirms South Africa's status as a society in which religious values are seen as very important. As many as six out of ten of respondents could be described as very religious, not only in belief but frequency of religious observance. They tended to explain the importance of religion to them in terms of personal self-development rather than in transcendental terms. In a choice of statements on the meaning of religion, over half chose the statements, 'confidence in own ability' and 'self-discipline and hard work'. Religious convictions, however, do not lead to 'conventional' (in Western terms) moral views. Over 50 per cent of the sample believes that having children out of wedlock is 'normal' and 'natural'. While middle-class women may be well able to cope with the stress of working motherhood, and no doubt make a good job of bringing up their children, this middle class is certainly not going to actively promote the repair of South Africa's torn moral and social fabric.

Money

One of the hopes vested in an expanding middle class is usually that it will tend to save relatively more money than others by exercising thrift and deferring gratification. Answers to questions in the survey about savings and debt levels may be summarised as follows:

- All income levels in general are living within their means, and savings are relatively high, although there are minorities with high debt levels.
- The African-middle-class sample has a higher propensity to save than whites with comparable incomes: the range of savings and investments in this group is more diversified and 'sophisticated' than whites as a group. The larger MarkData survey shows that savings by members of the African lower middle class were far weaker than either those among whites or the African core middle class.

These patterns are remarkable for a new middle class, and reveal a sharp distinction between the core middle class and the lower middle class of routine white-collar functionaries.

Race and transformation

In open-ended questions the respondents did not designate affirmative action and other race-based transformation policies as 'factors making for personal success and advancement'. There seems to be a need among many to believe that their successes are based exclusively on merit. However, when such alternatives were offered, 38 per cent chose them. Forty per cent of the middle-class sample believes that stronger government policies for African advancement are needed. Reactions to the statement 'South Africa is a country for Africans: whites should take second place' indicated that 35 per cent agree (8 per cent 'strongly'). Of the 65 per cent who disagree, 34 per cent do so 'strongly' and 31 per cent 'to some extent'. Their responses, in other words, are rather ambivalent on the issue of socially engineered transformation.

Politics

Sixty-four per cent of the sample indicated that they would vote for the ANC in a forthcoming general election (as against 68 per cent of all African adults). Alternatives veered leftward (notably in 'second choice' responses) towards the SACP (3 per cent first choice and 10 per cent second). Twenty-three per cent of the sample indicated that they might consider an alternative party. Some degree of satisfaction with government policy was recorded by 60 per cent (11 per cent 'very'). Of the other 40 per cent, 24 per cent were 'dissatisfied' and 15 per cent 'very dissatisfied'.

Because the special core middle class sample included opinion leaders whose presence blurs political alignments, more exact comparisons of political sentiment can be derived from the national MarkData Omnibus results. Fifty-six per cent of Africans said that they 'strongly admired' the ANC, falling to 47 per cent among respondents with tertiary education. However among Africans in LSM category 10, a close approximation of the core middle class, strong admiration for the ANC rose to 64 per cent. Whether they care to acknowledge this or not, it would seem as if the ANC's race-based transformation policies have created an exceptionally strong bond between it and the African core middle class.

Ideological variability in the black middle class: a factor analysis

Responses revealed considerable variance and numerous permutations in the sample's attitudes to the principal themes of the survey: the role of private business, policies of racial preference, and the possible effects of religiosity on development mindsets.

The best methodological option to make sense of these permutations appeared to be factor analysis.[20]

The following items were entered into the factor analysis:

- seven attitude items on private business;
- average debt repayments;
- income felt to be deserved;
- satisfaction with government performance;
- attitudes to privatisation;
- attitudes to corruption;
- attitudes to equality of citizenship by race;
- attitudes to affirmative action and empowerment;
- religious observance; and
- attitudes to women having children out of wedlock.

The 16 items that went into the factor analysis yielded the factors shown in table 5.

Table 5: Factors in the internal variation of black middle class attitudes to social and policy issues

	Factor description	Explanation of variance
Factor 1	Pro business and market-friendly, non-racial, satisfied with government but see discrimination against Africans persisting	15%
Factor 2	No real discrimination against Africans in business perceived, satisfied with government, favour privatisation, mildly against reverse racism, and tending towards high debt	12%
Factor 3	Tough on corruption, welcome whites, but business will be improved by transformation and necessary affirmative action	10%
Factor 4	Very religious, opposed to transformation, market-friendly but oppose privatisation	9%
Factor 5	Disapproval of children out of wedlock, moderately religious, critical of business role in development, favour state intervention, against privatisation, not concerned about discrimination, see business as offering some lessons in efficiency	8%
Factor 6	Very high salary aspirations, fairly high debt, fairly dissatisfied with government, tending to disapprove of privatisation, and moderately religious	7%

What the factors tell us is that the mindsets are complex and do not profile ideal-typical middle-class people with attitudes that all point in the same pro-market direction. The factors suggest that:

- pro-business sentiment is often associated with pro-government attitudes;
- conservatism, religiosity, and pro-market views do not always extend to support for privatisation;
- anti-business sentiment is not radical in flavour, but is often associated with moral conservatism and religiosity;
- there is considerable coherent non-racism, but this can co-exist with support for redress through race-based preference;
- high salary aspirations, high debt, and religiosity can co-exist; and
- high salary aspirations tend to be associated with anti-government sentiment, perhaps indicating relative deprivation.

It would seem that important middle-class mindsets combine favourable views of government and business, and combine belief in non-racism with belief in affirmative action.

While some individual responses to questions reveal left-leaning, anti-business, and pro-Africanist sentiments, these tendencies are not consistent and consolidated enough to form a separate factor. However, remember that any pattern or factor points in two ways – the ways described and their opposites, and opposition to radical and anti-business views were sufficiently consistent to form factors. One must bear in mind that the factors extracted are not groups of people but tendencies.

One significant tendency is pro-business sentiment, non-racism, religiosity, and support for race transformation. In a sense we see in this tendency a clear indication that the price of non-racism and pro-business sympathy is a commitment to race-based transformation. Where a white middle-class person might see race-based transformation as contradicting non-racism, the evidence of this study suggests that for many in the emerging black middle class, not only are they not contradictory, but they are interdependent, and in fact one is needed to enable the other to be expressed.

Another pro-business tendency is not transformation-oriented, but is against privatisation. Privatisation seems to be seen as the abandonment of social responsibility by government.

It is very important to emphasise that in this sample, at any rate, left-leaning, radical empowerment, and strong ethnic nationalist sentiments do not have the internal coherence and consistency to generate factors. Some of this inconsistency, for example, is found among SMME owners who can be entrepreneurial, anti-white, anti-government and anti-big business simultaneously.

The good news for market-led economic growth, however, is that some of the most cohesive mindsets support private enterprise. It must not be assumed, however, that these mindsets support privatisation, or necessarily lean against racial preference or against government policies, to engineer such preference.

Summary of additional results

Before proceeding, it is useful to describe briefly the socioeconomic status features of the sample in order to bear these in mind as the results are reviewed. The profile of the sample is as follows:

Table 6: Socioeconomic profile of the African-middle-class opinion leaders

Women	33%
Men	67%
Median net household income pm	R11 460
Median net personal income pm	R8 330
Proportion with tertiary education	81%
Proportion with standard 10 or higher	93%
Access to a computer	83%
Live in formerly white suburbs	52%
Live in townships but mainly in middle-class zones	48%

In terms of education, the sample is at least on par with the white middle class. In terms of income, it is slightly above the total white average, and it represents a mixture of middle-middle (67 per cent approximately) and upper middle (33 per cent approximately). The average income levels in the middle-class sample are at the same level as the all-race averages in LSM categories 9 and 10 in the AMPS surveys. We should remember, however, that the sample would not have anywhere near the average *accumulated* assets of the white middle class.

With this background in mind we turn to the conclusions. Some fairly clear indications of the potential role of the new African middle class in South Africa's future development have emerged, and in the section that follows an attempt will be made to extract the significance of the patterns.

Differences in selected values and attitudes between the African middle class and Africans in general

This is an appropriate point at which to summarise the differences or similarities that emerged from certain of the tables in the body of the longer report – comparisons that have not been discussed in the text above. The tendencies were as follows:

- The African middle class tends to give more emphasis to self-expression as a goal in child-rearing than African people in general, thereby conforming to the general assumption that middle-class child-rearing tends to stimulate individualism and self-actualisation in a society.
- Africans with tertiary qualifications tend to be less inclined to value the popular and conventional occupations of teachers and nurses than those without. Significantly, however,

they value skilled artisan work more – an indication perhaps of less concern with status and more concern with value.

- In terms of concepts of what religion means in people's lives, the middle class and Africans with tertiary education give much less emphasis to morality and conventional 'virtue', and also show less concern about the poor and the needy than the general African population. The African middle class, on the other hand, seems more likely to associate religion with confidence, determination, and the self-discipline needed to achieve success in life – hints of the notion of a 'Protestant ethic'.
- As regards the criteria that people have for judging success in life, the African middle class places less emphasis on popularity and respect among friends and family, the money to buy material possessions, and on income and job security. On the other hand, the middle class places relatively more emphasis on the acquisition of knowledge and wisdom, and on the achievement of independence and self-reliance – once again consistent with a 'Protestant ethic'.
- In identifying factors that help a country to succeed and develop, the African middle class gives relatively greater emphasis to a skilled citizenry, and less to both a caring and interventionist government, and labour organisation and mass mobilisation.
- As regards the kind of improvements felt to be necessary in government policy, the middle class tends to be less concerned with redistribution and more interested in the role of private business and investment. However, there is very little difference between the classes as regards nationalistic values, and there appears to be a class consensus in rejecting privatisation and the sale of state assets as a development strategy.
- There is also a reasonably high degree of support across classes for affirmative action and black economic empowerment policy. Hence support for state-sponsored transformation is shared between classes among African South Africans.

It may be noted here that almost equally firm differences emerge between the 'middle-middle' opinion leader group surveyed and Africans with tertiary education in the larger general sample. The middle class as it has been defined for this study – a definition that places it on a par with the white middle to upper middle class – cannot be conflated with 'better-educated Africans'. It is a very specific social formation within what people loosely call the 'emergent black middle class'. Most popular descriptions of the so-called African middle class are descriptions of a very diffuse category of people with above average socioeconomic status.

DISCUSSION AND CONCLUSIONS

What the new African middle class is not

One can commence this concluding discussion by dispensing with some crass popular oversimplifications. One is that the new black middle class is dominantly a 'political class' of social and political opportunists exploiting the national project of transformation to the hilt, justifying its position with a rationale of entitlement, and doing its best to prolong a culture of liberation. There are interest groups that fit this description, but they are no more than a small segment within the black middle class. On the whole, the African middle class is more sensible, nuanced, and varied, and it is much less prone to promote self-seeking policy agendas.

An even tinier segment of the African middle class includes a few genuinely independent intellectuals whose value to the society far outweighs their numerical strength.

Another thing the African middle class is not, is a recent adjunct to the established white middle class. For one, the white middle class is even more varied than the African middle class, and to try and typify either the African or the white middle classes as wholes is futile.

- ***The new African middle class does not have a cohesive identity and internal coherence:***

The core African 'middle-middle' class is certainly distinguishable from wider categories of better-educated and white-collar people, but even so is not a coherent and consolidated social formation. As argued in the review of the literature, the 'post-modern' middle class is more complex and varied than the earlier notions of a category of interests sandwiched between an exalted upper class of owners and power holders on the one hand, and the proletariat and peasants on the other. Indeed, the very label 'middle' can attach a misleading coherence to today's ramified and diverse occupational and status structures.

Wright, for example, classifies class members according to criteria of ownership of assets, size and power within organisations, and levels of skill.[21] This produces 12 'classes', seven of which fall within the range of upper to lower middle-class status, each with a different objective basis for political attitudes and interests.

The African middle class seems no exception to this internal variability. While more than 50 per cent of the members seem to define themselves as falling within the range of the lower to upper middle class, a substantial number seem to identify with workers and the poor, and a small minority perceives itself as an 'elite'.

It is consequently not a self-conscious class of the historical kind that solidified as a commercial class and citizenry in a contest against the constraints imposed by an aristocracy, like the early Western middle class. The struggle against apartheid was not a class struggle in this sense, but one based on racial and political solidarities. Therefore the likely responses of the African middle class to the economic and political system cannot be derived solely from its class position.

As such, the African middle class illustrates the point made by David Apter that the middle class today is not the fiercely independent and coherent 'burgher' class typified by Max Weber.[22] It is, as Apter has said, multi-bonded with multiple strands of interests and affinities. It can simultaneously be to the right of the 'ruling' class and to the left of the workers.

- ***The African middle class also has very recent origins and is on a learning curve:***

The African middle class is clearly the product of very rapid and recent occupational mobility. Although its growth may be slower from now on than it is currently, due to skills constraints in the feeder occupations and personnel rationalisation in the public service, it will probably be the fastest-growing segment of the occupational market for some time to come. This growth in itself will delay the emergence of a coherent self-definition. The rapid accruals will mean that for a while to come it will be a category on a steep learning curve in terms of responses to its situation. Under these circumstances, one cannot expect it to exercise a uniform influence within the economy.

- ***Some class affinities are emerging that support a business-driven development path:***

Not only the special survey of the 'middle-middle' class, but also the items included in the national survey and the earlier research quoted, show that the African middle class is, on average, more private sector and market oriented than the general African population.

This, however, is not a consistent and coherent orientation. We have described it as a quadruple ideology, blending support for entrepreneurship and business-driven development with a rejection of privatisation, support for government intervention and redistribution, and with some support even for a nationalist development mission.

Being generally business and entrepreneurship-friendly, the African middle class fully grasps one key element in development, namely the need for skilled and self-reliant citizens, and most of its members would probably endorse general trends in government macroeconomic policy. However, these priorities are more often than not blended with others that do not support a competitive and efficient economy or international competitiveness. In other words, in the middle class we have a constituency that will generally support the rather blurred and contradictory stated priorities of government in the development field.

- ***The African middle class is not yet revealing any marked convergence of identity with the economically powerful white middle class:***

While there is considerable support for business-driven development, the position and privileges of the white middle class are considered by a very large proportion in the African middle class to be illegitimate. White wealth is not so much resented as rejected as dominantly the product of a racist past and perceived white greed.

- ***The status protest and crises of esteem in the African middle class of the early apartheid period seem to have subsided, and with them the desire to be accepted by 'colonial' elites:***

Early work by Brandel Syrier, Kuper, Nyquist, and others reflected a status crisis in the African elite anxious to be accepted by the white upper middle class.[23] This sense of status marginality has been eroded by a combination of black consciousness, the political flirtation of the liberation movements with Marxism, the effects of the liberation struggle itself, and the rise to dominance of the ANC. There is no longer any way that reference to 'Western' norms and standards will prevail in any policy debate with the African middle class. The Western model, however, is still admired by a significant majority for its material, not moral, success.

- ***But there is an alternative basis for effective convergence with the culture of the white middle class:***

There is a strong trend in the findings that offers an alternative basis for an effective mutual accommodation between the African middle class and the white business and professional classes in the economy. This is convergence of attitudes over issues such as education, child rearing, child socialisation, savings, investments, and a range of specific policy preferences. The comparisons offered in the study suggest that the South African African middle class, despite its small size and economic marginality, is not at all like the elites in many sub-Saharan states. There is only a slight affinity with the 'Big Man' leadership syndrome of Africa in some of the responses of the local African middle class which disapproves of the elite formations that have done so much to undermine the economic and political progress of African countries to South Africa's north.

- ***The social networks of the African middle class contain few linkages with the white middle class:***

Only about 8 per cent of the African middle class sample named English- or Afrikaans-speakers among their two closest personal friends, and by no means were all of these people white. The informal social divide between the white and African middle class appears to be unaffected by the huge changes and transformations that have taken place in the society. Because of differences in the recreational interests and tastes of African and white middle class families, everyday social interaction outside the workplace takes a long time to emerge.

The area of least convergence between the African and white middle classes is the party-political:

The extent of commonality with the white middle class in terms of social values is almost totally lacking in the party-political sphere. Although the African middle class responses revealed deep and abiding problems with many aspects of ANC government performance and policies (deviating strongly to both the left and the right of government), the ANC government is the African middle class lifeline to leverage in the economy. Therefore this class retains a powerful sense of solidarity with the former liberation movement. This lifeline does not appear to be weakened by the fact that most of the African middle class sees the government as promoting every shade of special interests except those that it claims to be serving. Misgivings about the ANC performance are particularly marked among bureaucrats, the independent professionals, and community leaders.

Hence the African middle class is not ideologically captive of the ANC. Its adherence to the party is a pragmatic choice, but there is little to suggest that it is anything but a consistent, solidly based, and probably durable preference.

There is thus very little in the results to suggest that the new African middle class will strengthen multi-party pluralism in the political system. It is no more inclined than the general African population to support opposition parties, and less than one quarter would even consider any alternatives to the dominant party.

- ***Engagement with 'civil society' through voluntary associations is also attenuated:***

The voluntary associational memberships of the African middle class are dominated by memberships of their own party-political organisations, public service unions, and recreational or personal support associations. There is very little participation in voluntary welfare, literary, or hobby activity, for example. The variety of linkages and networks that one would ideally expect of a middle class is lacking.

At the same time, however, one cannot be certain that the equivalent levels of the white middle class necessarily have a more committed and varied engagement with civil society. One encounters this kind of commitment at a fairly elevated level – the older and very established upper middle classes. Due to its small size and relatively recent origins, the African middle class does not display substantial active involvement in independent civil society.

Given this, the involvement of the African middle class with party-political organisations might at least be seen as offering opportunities for it to exercise influence in the political system. It is the best that one can expect, and not insignificant in terms of the strengthening of pluralism within the ruling party system.

- ***The key interests of the African middle class are centred around occupational mobility, and as such affirmative action, employment equity, and empowerment policies are the hinges in its political commitment:***

The key defining aspect of the 'post-modern' middle class that David Apter singles out concerns opportunity for occupational mobility and associated income enhancement.[24] It is no different from the working class in the latter respect, but in striving for leverage for occupational advancement, potential rewards are more enduring, and arguably such classes will develop even more intense commitments to relevant policies than workers in trade unions.

These aspirations have been well served by government policy since 1994. The task of moving rapidly towards the representative allocation of advantaged occupational and business opportunities is regarded as a mission to rid the society of a 'pathology', namely the class advantages of the white minority that are seen to derive almost entirely from the effects of apartheid in South Africa and colonialism elsewhere.

Obviously this conception of the South African class and occupational status system is substantially valid, but not exclusively so. There are very few societies in which more advantageous occupational opportunities are even approximately representative of the population at large. Even if one leaves aside the structural factors of varying educational quality in society, there are subtle differences in motivational characteristics that will always ensure that some or another segment of a society achieves relatively greater occupational success. The most typical pattern is for certain ethnic or religious minorities to outperform others in career achievements: Jewish, Chinese, Japanese, Christian Lebanese, and more recently South Asian minorities have a reputation for relative occupational or business success in most Anglo-Saxon countries. There are less well-known success stories in all countries – the Ibo people in Nigeria, the Frieslanders in the Netherlands, the Scots in the United Kingdom, the Pentecostals in parts of Latin America, the Huguenots in 17th century France, the archetypal Calvinist 'Doppers' among Afrikaners, the Kurds in many parts of the Middle East, and so on and so forth. At root this differentiation has as much to do with the characteristics of family systems and child socialisation as with structural advantages in society.

Attempts by states to neutralise these consequences are seldom successful or beneficial for the society at large. It can amount to stripping a society of salutary role models in socialisation.

To what extent does the African middle class recognise these complexities? A careful review of its responses on white success and to that of white children at school suggests that at least one-third, and possibly up to 40 per cent, of the African-middle-class respondents would concede that white-middle-class socialisation has helped to ensure the occupational and educational success of the white minority.

Similarly, more than one third of the African-middle-class respondents express reservations about racial preference policies or reject them fairly emphatically.

On the other hand, around 60 per cent of the African-middle-class respondents endorse policies to ensure racial preference without qualification, and perceive white occupational success to be more or less solely an illegitimate consequence of racial discrimination.

Broadly speaking, then, the sample of the African middle class is split roughly 60:40 in terms of the necessity for a policy-based engineering of occupational outcomes to work towards racial representation in middle-class positions. This would suggest that middle-class support for affirmative action and black empowerment is very unlikely to weaken soon. The embrace of empowerment tends to cut across other ideologies, and many people whose attitudes on other social issues are quite conciliatory display a harder commitment to the new order of racial preference. Hence, for about 60 per cent of the African middle class, racial preference is not part of a paradigm, it is a paradigm on its own and it seems to be non-negotiable.

Within the support group for racial preference there is a harder core; a grouping that is committed to a strand of 'Africanist' imperialism that would relegate whites to the status of second-class citizens. The results have shown, however, that this perspective is part of a minority mindset and is not very consistent. It should not be confused with support for racial preference in occupations or business. Affirmative action and empowerment are perceived to be akin to a 'right of entry', while the black imperialist position is akin to a principle of 'exclusion'. The majority of the African middle class supports the former but not the latter.

- ***The very small relative size of the African middle class probably perpetuates a sense among its members of being victims of white greed:***

One of the compelling levers that some members of the African intelligentsia employ in defending their views is racial inequality. The small size of the African middle class relative to that of the white middle class (around 10 per cent) probably encourages a similar mindset, or at least feelings of material marginality and vulnerability.

The white middle class justifiably may feel threatened by the many of the demands of the African middle class, but it would be impossible to convince an aggregate that is minuscule in relative size that it can threaten or erode all sorts of vital criteria, norms, and standards that the white middle classes hold dear. When the whites get worried about a principle or a standard of performance, the African middle class will very understandably see it as an example of hypocrisy or greed.

- ***The very high material aspirations of the African middle class do not seem to indicate a need for ostentation along the lines that have been prevalent in some post-independence African countries, but may rather result from feelings of economic vulnerability:***

In post-independence Africa, many elites have developed a formidable reputation for rank ostentation, and there were early signs of it in South Africa as well. Data on the savings and debt levels of the African middle class sample do not suggest that a similar pattern will emerge in South Africa.

At the same time, however, the sample displayed very high salary expectations. The income aspirations within the segments of the African middle class are potentially destabilising in terms of productivity-linked market values. These aspirations, however, may be explained partially by the fact that most of the members have senior positions and within their own communities are outstandingly successful people, but have incomes that are very modest and constrained compared with those of the white upper classes and the black 'super-elite' which may have become a point of reference.

If these super-elites are a reference group for the African middle class, then the comparatively modest public service and private sector salaries of the middle class may well be experienced as an anomaly. But the African middle class is not alone in this respect. Other survey evidence shows that the white middle classes find the salaries of top corporate executives abnormally high relative to their apparent value to the economy and society. While the white middle class may have become cynical about and reconciled to the millions that less than impressive corporate executives earn annually, the African middle class may still be influenced by what they read.

- ***Religion has the potential to be very important in bridging the racial divisions in the middle class:***

Religion is a binding factor in South African society, and the African middle class is very religious by modern standards. Although not all the variations in religious sentiment are consonant with Weber's conceptualisation of the Protestant ethic, religion does seem to underpin a sense of shared interests with whites and others, to the extent that such sentiments exist.[25] Furthermore, in the middle-class sample there are very significant numbers whose social values and lifestyle commitments suggest an ethic of deferred gratification and self-discipline.

The religious sentiment displayed by the African middle class may also have within it the capacity to generate confidence and self-reliance, with implications for development perhaps similar to the Pentecostal revolution in Latin America.

- ***The multivariate analysis shows that members of the African middle that are most satisfied with government performance are also the people who are most supportive of market-based development and the role of business in development:***

The factor analysis conducted on the data shows that the African middle class 'economic conservatives' – the people who are most accommodating of private business and the realities of the market – are also most tolerant of government performance.

A very strong perception in this middle class is that the government and corporate business have deeply shared interests, and are really part of the same broad camp. The African conservatives in the middle class may like it, but an almost equal number of others do not. Affinities are rapidly being rearranged. Although white business experiences a gulf between itself and government, large segments of the African middle class see this gulf as minor compared to the gulf between mass sentiment and the stances of government.

Hence business is most likely to find common ground with the reasonably satisfied ANC supporters among the African middle class and not with the dissenters of whatever persuasion.

- ***The African middle class also does not necessarily admire the African super elite – the new leading African capitalists that have such an exalted status in the media:***

Although they were not specifically questioned in this issue, the perceptions among the middle class of who benefits most from current policies suggests that the members of the African middle class share many of the misgivings of the white middle class about the phenomenon of a small handful of well-placed insiders "making a killing" in business.

- ***The African middle class, while strongly identifying with the African advancement policies of government, is certainly not a slavish adjunct of the ruling party:***

The African members of the middle class surveyed are a highly polarised aggregate in terms of many policy issues. In particular, there seems to be a perception that government is either pursuing the wrong priorities or that it is unable to implement its policies. This does not apply to all members – the local councillors and non-central bureaucrats are more likely than others to endorse the government performance, but there is a substantial amount of disaffection with government policies among others.

This evidence supports a proposition of Apter, Eisenstadt, and others (quoted in the introductory sections) that the middle classes, after a time, become a major source of 'internal' opposition to government policy and performance in new semi-democratic systems, and as such pave the way for the eventual emergence of a more pluralist political order. As Samuel Huntington *et al* have warned, however, this dissent can also lead to major instability, and can support challenges to the authority of new governments.[26] This is less likely to happen in South Africa than in the rest of Africa where the states are often in a condition of collapse.

Broadly, however, it seems as if not all of the new African middle class is likely to strengthen or endorse hegemonic tendencies in government, and part of it may well become increasingly inclined to express firm dissent, thereby assisting the process of democratic consolidation. One of the biggest constraints on the emergence of an independent source of influence from the African middle class, however, is the mutual isolation of the African and the white middle classes, discussed earlier. One cannot see any indication in these results of social synergy emerging spontaneously across the multiracial middle class as a whole. At this stage there is simply too little informal and extra-occupational contact between the racial segments of the middle class, and also too little participation by the new African middle class in voluntary organisational activity independent of government, and independent of the increasingly politically correct corporate sector.

In a sense this mutual isolation is not a problem deliberately created by either the African or the white middle classes, but there is still a very real need to deepen and extend the debate between white (and other minority) middle-class opinion leaders and their African counterparts in order to strengthen synergy where it really counts for the emergence of an independent and influential civil society.

METHODOLOGICAL NOTE: FACTOR ANALYSIS

A useful illustration of factor analysis is what such an analysis of an oblong box would yield – say a box of matches. If one were to enter all the measurements that one can make of such a box – height, width, circumferences, diagonals, volume, top and side surface areas, etc, etc, then the analysis will boil it all down to only three major dimensions from which all the other measurements can derived, namely height, width and length. In a less precise way, because of the fluidity and complexity of attitudinal data, a factor analysis of ratio, ordinal, or interval scales in survey data can do much the same.

Because of the relatively small sample, the number of items entered into the factor analysis had to be restricted in order to avoid statistical instability creating misleading results. Hence open-ended and complex items were avoided in favour of a range of short fixed-answer alternative items that covered the major issues referred to above. Some 16 items were entered and six factors were extracted that provide useful insights into the major underlying patterns in the data.

The factor analysis involves inter-correlating the results on all these items, statistically reviewing the patterns (components in the variance) that emerge, rotating the patterns around a statistical axis to obtain the clearest contrasts between the different components and expressing each component or 'factor' as a function of the loadings of each item on that factor. One may then describe the characteristics of the factors on the basis of the loadings.

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CHAPTER 6

BLACK ECONOMIC EMPOWERMENT

Kevin Davie

> Critically we need to link this BEE process to the further development of the economy, and in particular development of small and medium businesses. We've got to encourage the growth of small and medium business. And this is the point of entry with regard to Black Economic Empowerment. … In the private sector, there's a particular expression of the BEE thing – people borrowing lots of money from the banks, and buying 25 per cent of this and the other thing – not that. We want to say, why don't we produce more footwear? Therefore, let's assist this black businessperson to produce footwear. They need capital, they need training in terms of business, they need incubation, they need to link up with a bigger footwear manufacturer that you have – that kind of approach. *Thabo Mbeki*[1]

Through a long and sometimes tortuous process of policy development, Black Economic Empowerment (BEE) has become central to the government's programme of addressing South Africa's legacy of economic exclusion and material inequality. Given the potential of that legacy for bitterness, policy on empowerment, though far-reaching, seeks redress through incentive rather than coercion. The incentive is winning public and private business through 'empowered' status, as measured by what is called the balanced scorecard, by which enterprises are rated in terms of an overall empowerment score on a range of factors including ownership, employment equity and skills development. The other side of the incentive coin is, of course, exclusion for the 'unempowered'.

Despite being on the whole measured and relatively flexible, BEE has inevitably been controversial. No policy which aims to transfer wealth and requires extensive regulation of enterprises could fail to be so. However as BEE deals began to proliferate in 2004-5 controversy took the increasingly sharp form of disquiet over how apparently narrowly based the deals were and how few were the beneficiaries.

This chapter aims to put this growing discontent into perspective by focusing on how we got to the present policy threshold. It examines what the BEE programme was initially all about, how it was implemented, and who its beneficiaries were. It then assesses the benefits of the programme against its costs, before speculating how BEE is likely to affect economy, society, and politics in the future.

THE FORMULATION AND CONTENT OF THE BEE PROGRAMME

The current BEE policy was officially initiated in 2003, when the then minister of trade and industry, Alec Erwin, issued a 34-page document entitled 'Broad-based black economic empowerment strategy'.[2] However, at a broad policy level, government has been stressing the need for black economic empowerment since the early 1990s. It set the target date of 2014 for South Africa to have an economy that meets the needs of all its citizens. According to the document, 'entrenched inequalities continue to characterise the economy and act as a deterrent to growth' despite the best efforts of government. The fundamental starting point was that something had urgently to be done to reduce deep-rooted gender, racial, or ethnic-defined wealth inequalities, which threatened the growth of the economy as well as, in an interconnected way, the stability of both society and the state. The benefits of a successful BEE programme would therefore be higher growth, a more integrated society free of racial animosity, and a more stable political situation.

According to the department of trade and industry (DTI), the empowerment strategy document resulted from an extensive consultative process, especially with the Black Economic Empowerment Commission, which had been established in 1998 and represented 11 black business organisations. For good measure, the DTI also consulted the Black Business Working Group, as well as the Big Business Working Group. There was no indication that small business groups were consulted.

The strategy document then explained that the state would 'actively lead the development and implementation of a focused and coherent strategy to achieve broad-based black economic empowerment and the deracialisation of the economy'. This would be guided by four principles:

- to be broad-based to combat the potential for social and political instability from wealth disparities based on race;
- to be inclusive, as all South Africans will benefit from a more equitable economy;
- to use good governance to ensure that economic reform and transformation are linked to the quality and transparency of economic activity; and
- to be part of an overall growth strategy – economic growth, development, and BEE being complementary processes.

A central policy instrument put forward by the strategy document was the BEE scorecard. The scorecard would be used whenever government granted a licence for regulated economic activity, granted a concession to operate an asset or enterprise on behalf of the state, sold an asset or state-owned enterprise (SOE), entered into a public-private partnership, or engaged in any economic activity. Thus, private companies who in the future want to earn maximum points on the scorecard will be forced to deal with empowered companies in terms of their procurement and other business dealings. The enterprise that does not embrace empowerment runs major risks. It can lose existing contracts and licenses when they come up for renewal. It can find itself cut off from new contracts and licenses. It can lose revenues where it tenders to both private and public entities. And, if it operates in the retail market, it stands to lose significant portions of its market, potential and actual, if it emerges that the company is an under-performer on the empowerment front.

The three individual parts of the scorecard – ownership and control, human resource development, and enterprise development – count for 30 per cent each of the total score. There is also a 'residual 10 per cent' to allow sectors and enterprises to tailor the scorecard to their circumstances. The following can be used to make up the residual 10 per cent:

- infrastructural support to suppliers and enterprises in the same area or community;

- labour-intensive production and construction methods;
- beneficiation;
- investment support to enterprises in rural areas; and
- investment in the social wage of the employee, such as in housing, transport, and health care.

The scorecard is further subdivided into equity ownership (20 per cent), management (10 per cent), employment equity (10 per cent), skills development (20 per cent), preferential procurement (20 per cent), and enterprise development (10 per cent).

President Mbeki signed these policy proposals into law on 9 January 2004, in the form of the Broad-based Black Economic Empowerment Act of 2003 (the BBBEE act).[3] The law is just five pages long but, while it might not be large in page count, it is an ambitious document aiming to:

- establish a legislative framework for the promotion of black economic empowerment;
- empower the minister to issue codes of good practice and to publish transformation charters; and
- establish the Black Economic Empowerment Advisory Council.

It sets itself two goals, to:

- promote the achievement of the constitutional right to equality, increase broad-based and effective participation of black people in the economy, and promote a higher growth rate, increased employment, and more equitable income distribution; and
- establish a national policy on broad-based economic empowerment to promote the economic unity of the nation and promote equal opportunity and access to government services.

The act defines black people as a generic term that means Africans, coloureds and Indians. Broad-based black economic empowerment means the empowerment of all black people including women, workers, the youth, people with disabilities, and people living in rural areas.

Empowerment includes:

- increasing the number of black people that manage, own, and control enterprises and productive assets;
- facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives, and other collective enterprises;
- human resource and skills development;
- achieving equitable representation in all occupational categories and levels in the workforce;
- preferential procurement; and
- investment in enterprises that are owned or managed by black people.

The act does not set targets or suggest guidelines as to what portion of existing assets should be transferred to black owners. It is intended to be the broad framework on which sector-specific transformation charters and/or codes of good practice can be built. It says that the minister (of trade and industry) must publish in the government gazette a transformation charter for a particular sector of the economy if the minister is satisfied that the charter has been developed by major stakeholders in that sector and it advances the objectives of the act. The leader has been the mining charter, which is incorporated into the Mineral and Petroleum Resources Development Act of 2002.

Across other sectors of industry, charters are in various stages of completion with some, including financial services, construction, advertising and marketing, transport, information communications technology (ICT), agriculture, and tourism, subject to ongoing negotiation into 2005. The progress of BEE charters has therefore been slow, and as we have noted, marked by the controversy that accompanies the transfer of wealth and regulation of enterprises, especially, as with the case of the Mining Charter, when leaked documents have fed alarm. However the selective summary of some of the charters which follows illustrates the progress that has been made.

THE MINING CHARTER

In July 2002, a proposed socioeconomic empowerment charter for the mining industry was leaked to the media. The charter aimed to expand the opportunities for black South African companies in an industry dominated by massive white-owned corporations. The key proposal was that at least 51 per cent of industry assets should be transferred to black companies within ten years. The publication of the proposed charter created an uproar, with the Chamber of Mines and companies such as Anglo American condemning black ownership proposals and timetables. South African mining shares went into a tailspin on local and international markets. Consequently, president Mbeki rushed to ensure foreign investors that the government had no intention of nationalising mines.

However, after interventions by South African mining companies (namely Anglo American, Gold Fields, Harmony, Kumba Resources, and BHP Billiton), and various assurances by cabinet, the leaked mining charter was revised and redrafted. By the end of October 2002, South Africa's largest mining companies had backed the final draft of the empowerment charter of the mining industry.

The final mining charter differs radically from the leaked draft. It covers nine areas in which targets are set for mining companies, including the transfer of 26 per cent of mining industry assets to historically disadvantaged South Africans (HDSAs) within ten years (and 15 per cent within five years), and for mining companies to establish their own preferential procurement policies that favour companies controlled or owned by HDSAs. The mining charter and the scorecard derive their force from the Mineral and Petroleum Resources Development Act of 2002 (the Minerals Act). One of the key objectives of this act is to 'recognise the internationally accepted right of the State to exercise sovereignty over all the mineral and petroleum resources of the Republic', and to 'give effect to the principle of the State's custodianship of the nation's mineral and petroleum resources'. The act therefore places privately owned minerals under state custodianship. The grant and exercise of mining rights, issued by the state, will be contingent upon applicants showing that they will meet the Minerals Act's empowerment objectives of substantially expanding opportunities for HDSAs to enter the mineral and petroleum industry, promoting employment, and advancing the social and economic welfare of all South Africans.

The mining scorecard will be used to evaluate progress towards the act's empowerment objectives, and thus in determining whether mining companies are awarded mining rights.

The charter begins by reassuring its readers that it is a consensus text; that the government will 'allow the market to play a key role' in achieving BEE in the sector; that 'it is not the government's intention to nationalise the mining industry'; that the government understands the need for the industry to remain internationally competitive; and that 'the transfer of ownership in the industry must take place in a transparent manner and for fair market value'.

The charter's objectives are far broader than merely increasing BEE equity ownership. They set out to:

- promote equitable access to the nation's mineral resources for all the people of South Africa;
- substantially and meaningfully expand opportunities for HDSAs, including women, to enter the mining and minerals industry and to benefit from the exploitation of the nation's mineral resources;
- utilise the existing skills base for the empowerment of HDSAs;
- expand the skills base of HDSAs in order to serve the community;
- promote employment and advance the social and economic welfare of mining communities and the major labour-sending areas; and
- promote beneficiation of South Africa's mineral commodities.

The parties to the charter make the following specific undertakings in pursuit of these goals:

- the number of registered learnerships in the mining industry will rise from the current level of some 1 200 to not less than 5 000 by March 2005;
- companies undertake 'To offer every employee the opportunity to become functionally literate and numerate by the year 2005 in consultation with labour';
- stakeholders undertake to 'establish measures for improving the standard of housing including the upgrading of hostels, conversion of hostels to family units and the promotion of home ownership options for mine employees';
- increase procurement from HDSAs; and
- most important of all, 'the industry agrees to assist HDSA companies in securing finance to fund participation in an amount of R100 billion within the first five years'.

As is well known, the 'headline' figure of the mining charter is that companies must aim to achieve '26 percent HDSA ownership of mining industry assets in ten years'. However, there are several less prominent features of the charter which are likely to make this target less daunting:

- It would appear that 'passive involvement' in the form of pension fund investment, mineworker share schemes, and the like will count towards this target.
- 'The continuing consequences of all previous deals' will be included in counting progress towards the target.
- 'Where a company has achieved HDSA participation in excess of any set target in a particular operation then such excess may be utilised to offset any shortfall in its other operations.'

- In any case, a mining firm is likely to be able to achieve an acceptably high BEE score if it performs adequately on other aspects of the balanced scorecard, even if 26 per cent HDSA proves unattainable in the decade to come.

THE PETROLEUM AND LIQUID FUELS INDUSTRY CHARTER

The charter for the South African petroleum and liquid fuels industry was negotiated among the department of minerals and energy, the Central Energy Fund, the South African Petroleum Industry Association (SAPIA), and the African Minerals and Energy Forum (AMEF).

The industry includes:

- oil and gas exploration and production;
- crude oil refining;
- marketing of petroleum products;
- transportation of petroleum products, including road haulage and coastal shipping;
- synthetic fuels manufacturing;
- liquid fuels pipelines, single buoy moorings, depots, and storage tanks;
- trading, including import and export, wholesale and retail, and
- assets/infrastructure.

The charter was signed on 2 November 2000 and recommits the industry to the key objective of the energy policy white paper of 1998, that 25 per cent of the industry, measured by aggregate equity value, be owned or controlled by HDSAs within ten years. The charter further commits companies and the government to:

- creating a 'supportive culture' for this goal by appointing managers sympathetic to it;
- skills development and capacity building;
- adherence to employment equity legislation;
- pursuing preferential procurement policies in the private and public sector;
- 'non-discriminatory access' for BEE companies to existing pipelines, refineries, and other infrastructure;
- access to oil refineries and synthetic fuel manufacturing for BEE companies;
- creating fair opportunity for entry into the retail network and commercial sectors;
- established companies assisting BEE companies in financing their acquisitions;
- the government undertaking to deal with state assets in a manner that promotes the objectives of the energy policy white paper and the charter; and
- companies supplying detailed data on BEE progress to the department of minerals and energy annually.

The introduction of the liquid fuels charter into the industry was far from smooth. In late 2003, Sasol Limited, a company engaged in liquid and synthetic fuels, applied for a secondary listing on the New York Stock Exchange (NYSE). As part of this application, the company needed to complete a form 20-F and submit it to the United States Securities Exchange Commission. Form

20-F must be completed by all non-United States companies seeking a listing on any United States stock exchange. Sasol's filing 'is over 180 pages long and contains information about inter alia, its directors and senior management and the remuneration they receive, the company's operational and financial history and future prospects, its major shareholders and related party transactions'.[4] Around 14 pages of Sasol's submission outline risk factors facing the company and the industry in which it operates. Failure to disclose material information in the United States 'can give rise to law suits against the company by aggrieved investors.'

Sasol's oil and gas divisions are a party to the petroleum and liquid fuels charter. As discussed, the parties to the charter have committed themselves to achieving a target of 25 per cent ownership and control of every aspect of the energy sector by HDSAs by 2010. With regard to meeting the equity element of the charter, Sasol, in their form 20-F submission, stated that 'whilst it is our intention that equity participation will take place through transactions at fair market value, we cannot assure you that these transactions will occur at fair market terms'.[5] Sasol also 'referred to the funding gap that exists between the amount of available capital and the capital estimated to be required to reach BEE equity ownership targets of the energy and mining charters'. Furthermore, Sasol 'raised the possibility that it would be required to participate in funding BEE equity transactions with its own assets or credit facilities'.

The contents of Sasol's form 20-F submission evoked a strong response from president Mbeki. The core of his criticism was that Sasol had presented BEE as a potential negative factor in terms of its performance as a publicly listed company – 'The message communicated by Sasol ... is simple and straightforward. It is that [BEE] is not good for business. Accordingly, the message they sought to communicate to all business people, both domestic and foreign, is that they should view our efforts to address the legacy of racism in our economy as something inimical to good business.' The president argued that it was not true that the achievement of BEE goals was necessarily a business risk that should discourage investors from buying shares in Sasol or otherwise investing in the South African economy. Furthermore, he also criticised Sasol for 'focusing only on the transfer of equity and said that BEE is something much broader, encompassing employment equity, procurement policies and building skills in the industry.'[6]

Sasol, through its CEO Pieter Cox, released a statement stating that the company regarded BEE as essential for the stability of the country and a crucial imperative of Sasol's own growth strategy – 'We agree entirely with ... President Thabo Mbeki that empowerment is essential for the economic growth of our country and businesses like Sasol. Sasol, as the single largest investor in the South African economy, considers BEE and transformation as economic imperatives.' Sasol said that its statements, which were required by United States law, created an inaccurate impression of its attitude towards BEE. Sasol may be correct that equity transfers to meet BEE targets may take place at less than fair market terms, but some commentators have argued that, in the long run, this is a cost worth paying – something Sasol should have mentioned in their form 20-F submission.

Telkom's form 20-F submission is rather interesting when compared to Sasol's. Telkom SA Ltd filed its form 20-F in August 2003, as part of its secondary listing on the NYSE. Under the heading 'Risk Related to Regulatory and Legal Matters', Telkom stated the following in relation to BEE legislation: '... if our shareholder base does not qualify under the ownership requirements of [BEE legislation], some of our business customers may be required or elect to obtain all or some of their telecommunications services from our competitors who may fulfil such ownership requirements'. Interestingly, though, Telkom was never subject to any criticism from government for making these statements.

THE TOURISM INDUSTRY CHARTER

The 'Charter of empowerment and transformation in the tourism industry' was signed at the AGM of the Tourism Business Council on 29 June 2001. This single-page document defines BEE as entailing 'initiatives that will further Ownership, Business Development, Opportunities for Management and Community Development towards a more equitable distribution of jobs, skills, income and ownership of capital in the industry'. No specific or numerically defined commitments are made, other than to a reporting process on progress. One reason for this may be that, in sharp contrast to the highly concentrated and highly regulated energy sector, government has relatively little 'leverage' over the much more diversified, much less regulated, tourism sector.

However, despite the vagueness of its charter, what makes the tourism sector of broader interest is that it has been the first to produce a sector-wide report on BEE progress, albeit one internally funded and commissioned.

The first annual 'Tourism industry empowerment and transformation review' appeared in June 2002. It was compiled by Letsema Consulting and Infonomics SA and was funded by the Tourism Business Council. It found that:

- BEE 'far from being a government-imposed cost on reluctant businesses offers clear benefits to those who are able to develop and implement a clear business-driven empowerment vision';
- tourism industry owners are particularly amenable to empowerment because it enables them to offer clients the desirable 'African experience of high quality' which tourists seek;
- empowerment companies have been most active and successful in the gaming sector, where government has direct control over the awarding of casino licenses;
- existing firms are pursuing BEE through affirmative procurement (for which 'horizontal pressure' is growing – that is, to meet their targets, firms require each other to be adequately empowered);
- the greatest BEE progress has been made in management and skills development 'partly because government has established clear requirements in terms of the Employment Equity Act, the Skills Development Act and its associated SETAs' – THETA [the sector education and training authority (SETA) for tourism, hospitality, and sport], however, has proved to be 'an administrative nightmare';
- the 'general tone of government initiatives ... is one of strong co-operation with the private sector, and strong awareness of the danger of alienating private investment [is shown.]'; and
- most importantly, foreign-owned tourism companies have no incentive to seek black partners and locally owned ones are finding it very difficult to locate adequately funded black prospective partners.

The report recommended that:

> Firms in the sector should begin to collect and to report from quantitative data on BEE, specifically to include the percentage of contracts awarded to BEE suppliers, percentages of black employees and managers, spending on corporate social investment (CSI), and spending on training.

THE FINANCIAL CHARTER

The financial services charter (FSC) is a key part of the empowerment landscape, both in terms of the size of the sector and the fact that it will play a key role in financing empowerment. The FSC had its origins in a summit held in August 2002 at NEDLAC, a policy body including government, labour, business, and civil participants. Released in draft form on 17 October 2003, the FSC carries the signatories of 11 industry players, including the Banking Council of SA, the Institute of Retirement Funds, the JSE, the Life Officer's Association, and the SA Insurer's Association. The FSC shares the goals of empowerment as outlined in the BBBEE act, describing itself as a 'transformation charter as contemplated in the broad-based BEE legislation'. It commits to making funds available to fund black empowerment and to improving access to financial services. It also aims to self-regulate empowerment in the sector through the establishment of a charter council, an independent body with a mandate to oversee the implementation of the charter. The preamble says that the stability and soundness of the financial sector and its capacity to facilitate domestic and international commerce is central to the success of black economic empowerment.

According to the charter, 'Based on preliminary calculations it is estimated that the aggregate amount of new empowerment financing from the financial sector could exceed R75 billion.' The parties agreed to establish, by 30 June 2004:

- the total amount of empowerment financing;
- the desired breakdown between BEE transaction financing and other components of targeted investment;
- appropriate risk-mitigating measures and risk-sharing arrangements between government and the private sector;
- the period over which empowerment financing will be done;
- the institutional framework and financing models for the mobilisation of resources; and
- the extent to which past financing transactions will be taken into account.

The FSC also intended calculating the total cost of targeted investment in areas where backlogs in economic development had not been adequately addressed in the past by financial institutions, including in the provision of transport, telecommunications, water, waste, energy, social infrastructure (health, education, and correctional services), and municipal infrastructure and services.

'The total amounts to be invested in BEE transaction financing and targeted investments … is currently estimated to be in the order of R2 000 billion.' Noting that the sector has been inadequate in responding to increasing demand for financial services, the FSC committed to providing retail products such as a basic and secure means for accessing and transferring cash, a savings account, basic insurance products, an ATM for cash withdrawals, and loans for low-income housing, all within 20 kilometres of prospective clients. This programme was launched during 2004, offering low-cost financial services to clients previously outside the banking system. The FSC committed 50 per cent of all procurement in the sector to be from BEE-accredited companies by 2008, rising to 70 per cent by 2014. Small business interests will be promoted through providing support to black SMEs such as through targeted procurement and early payment for services. The FSC committed to increase black representation in the workplace. For instance, 33 per cent of board members will be black by 2008, 11 per cent of the total to be black women. The charter also committed to investing 0,5 per cent of post-tax operating profits in corporate social responsibility projects between 1 January 2004 and 31 December 2014.

The charter council has the job of undertaking a comprehensive mid-term review in 2009 and reviewing ownership provisions in 2011. Shortcomings, if any, have to be decided, and further steps, if any, introduced. There has to be equality between industry representatives 'and others' on the charter council, and decisions have to be taken on a consensual basis. Each financial institution has to report annually to the council on its progress in implementing the provisions of the charter. These reports are for the calendar year and to be submitted by March 31 the following year. All are required to publish an annual BEE report which will include an audited scorecard. These reviews have to include separate information on targets for black women representation, on employment equity targets, on learnerships, on procurement, on targeted (socioeconomic) investment and on how regulation in the sector is promoting the empowerment objectives of the charter. The charter council has its own executive which receives, considers, and approves annual audits from each financial institution; confirms their ratings; and submits an annual review to the advisory council.

THE BEE ADVISORY COUNCIL

An important policy instrument to oversee empowerment in general, and the process of formulating industry charters in particular, is the non-statutory BEE advisory council, which:

- advises government on empowerment and reviews progress in achieving empowerment;
- advises on draft codes of good practice;
- advises on the development, amendment, or replacement of the overall empowerment strategy;
- advises on draft transformation charters; and
- facilitates partnerships between the state and the private sector to advance the objectives of the BEE act.

The advisory council has the country's president as its chair. Its members include the minister of trade and industry and three other cabinet ministers, as well as no fewer than 10 and no more than 15 others appointed by the president. These members are drawn from trade unions, business, community-based organisations, and academia. Five of the 15 clauses of the act deal with the council and its affairs. It is clearly intended to have a central role in a wider empowerment strategy.

But the government has been delayed in setting up the council. The minister of trade and industry, Mandisi Mpahlwa, told delegates at a conference in early October 2004 that the council would be established 'soon'.[7] In February 2005, President Mbeki said the long-waited BEE advisory council would be established once the process of public comments on the government's codes of good practice on BEE had been finalised.[8] Slowness in establishing the empowerment advisory council has contributed towards a policy and regulatory vacuum. Partly in an attempt to deal with this issue, on 9 April 2003 Alec Erwin announced the members of a task team on BEE to serve until the council had been appointed. A press release issued by the DTI said: '... members of the task team have been appointed on the basis of their expertise and experience in areas vital to the development of black economic empowerment policy in South Africa.'[9] The 14-person team included three of the most prominent beneficiaries of BEE, Cyril Ramaphosa, Saki Macozoma, and Patrice Motsepe.

Apart from the problems with setting up the council, administrative hindrances have ensured further delays in implementing the act. More than a year after the BBBEE act was passed, the strategy document it requires remains in draft form. The advisory council, once it is established, may also then re-visit this document. The minister is required to develop a plan for financing broad-based empowerment as well as to provide for a system for organs of state, public entities, and other enterprises to prepare broad-based empowerment plans, and to report on compliance with those plans. The charter councils would provide annual reports on the activities within their sectors to the advisory council. Some of the draft codes of good practice were released in December 2004. They were expected to be sent to the advisory council, which could re-release them.

THE BENEFICIARIES OF BEE

If the major problem of BEE is haphazard and slow implementation, an even bigger one is the way the benefits of BEE have been snared by a very small group of increasingly wealthy individuals. For as deal making proceeded in 2004, companies have chosen a narrow set of partners in their efforts to comply with government policy. While many deals do include at least an element of broad-based participation, department of trade and industry (DTI) figures released in late 2004 show that 72 per cent of R80 billion in empowerment deals concluded during 2004 went to just six companies. The six companies are Mvelaphanda, Safika, Shanduka, ARM, Tiso and Kagiso.

Just a handful of individuals are the major shareholders of these companies. Patrice Motsepe of ARM is the only shareholder, six individuals share the issued equity in Safika, Tokyo Sexwale holds 35 per cent of Mvelaphanda and Cyril Ramaphosa 30 percent of Shanduka. This section focuses on who benefited directly, and how they benefited, from the initial implementation of BEE initiatives.

At the heart of empowerment in the new South Africa is a conundrum. Why has a policy which, as spelled out in the 2003 BBBEE strategy document, was intended to benefit the majority ended up favouring so few? While government has established the overarching policy and legal framework, it has to date left the business of empowerment to a great extent to the private enterprises themselves. They, by and large, have embraced empowerment with huge enthusiasm, recording deals worth R80 billion during 2004 according to government figures.[10] This compares with R42,2 billion in deals recorded by Ernst & Young during 2003.[11]

While business responded quite dramatically to the government programme launched in 2003, empowerment-type deals had existed long before that. The DTI strategy document records Sanlam's decision to sell 10 per cent of its stake in Metropolitan to the black-owned consortium of New Africa Investments Limited (NAIL) in 1993 as the first black empowerment deal. Cyril Ramaphosa was one of four investors, three black and one white, to be empowered by this deal. 'This was followed by a spell of similar transactions where equity stakes in enterprises, many of them listed on the JSE, were sold to black investors,' says the DTI. 'Broad-based empowerment was, however, hampered by the low levels of initial capital endowment in the black business community. This resulted in a financing process that was often dependent on problematic corporate structures. New black owners were left highly indebted as financial and equity markets experienced volatility globally in 1997.' The DTI says the stock market crash in Asia exposed the weaknesses in this approach and the number of BEE transactions fell sharply. Figures collated by Ernst & Young as part of an annual review of mergers and acquisitions record the following number of BEE deals in terms of number of transactions and value:[12]

BEE value and volumes (1995–2003)

	Number of deals	Value (Rbn)
1995	23	12,4
1996	45	7,0
1997	52	8,3
1998	111	21,2
1999	132	23,1
2000	126	28,0
2001	101	25,1
2002	104	12,4
2003	189	42,2

Source: Ernst & Young, Mergers & acquisitions, 2003.

There was no shortage of empowerment deal flow during the 1990s, but, according to Ernst & Young's Dave Thayser, imaginative finance has proven troublesome for black empowerment down the years. 'The combination of a high interest rate regime and poor share price performance by some of the underlying assets has often left the new black shareholders with significantly reduced holdings.' Ernst & Young's 2000 review noted a dramatic reduction in the black-controlled percentage of the JSE.[13]

While the Asian market shakeout did undo many empowerment deals, a few black entrepreneurs emerged with a track record in business out of the first wave of empowerment. This group included individuals who were senior members of the ruling party, the ANC. In the second, post-BEE policy, wave of empowerment deals, private business, aware that high-profile black businessmen were in short supply, lavished most of its attention on these politically connected individuals with some record of business success. Thus, businessmen such as Cyril Ramaphosa, Saki Macozoma, Tokyo Sexwale, and Patrice Motsepe have, in a sense, become South African versions of the Russian oil oligarchs as they were able to negotiate themselves large stakes for their participation.

In January 2002, empowerment ratings agency Empowerdex ranked 25 black businessmen by their influence on the JSE. This is calculated by adding up the market capitalisation of the companies in which the businessmen hold directorships. Cyril Ramaphosa was in the top spot with market influence of R137 billion, Tokyo Sexwale second with R77 billion, and Saki Macozoma sixth at R63 billion. Black directors are still in the minority on the JSE. Empowerdex's figures show that in 2002, 14,7 per cent of directors on the JSE were black, up from a just 1,2 per cent of the top 100 companies in 1992. The 14,7 per cent were 367 in number, 62 executive and 305 non-executive.

The need for empowerment transactions essentially to pay their own way explains why a tiny elite has featured in so many of the deals. Since earnings and/or share price growth are intended to fund the deal, enterprises have rushed to do deals with individuals who they believe are most likely to bring enhanced value to the company. Stated in broad strokes, businesses need to deal with parties who can add 25 per cent additional value to the company during a ten-year period for the deal to be able to fund itself. In this light, existing shareholders are agreeing to share a larger cake, not to dilute their investment. The chances of reaching these higher targets are significantly increased if the empowerment partner is someone like Cyril Ramaphosa, with R138 billion in market influence, rather than, say, an official of a rural-based non-government organisation. All Ramaphosa and company have really done is exploit their market value, which derives from the fact that black businessmen with their connections are in short supply.

Tokyo Sexwale's ability to get 100 000 ABSA shares, allocated to him as a member of the Batho Bonke consortium, for every one share allocated to an ordinary member is a good example of this process. By comparison, ABSA chief executive Nallie Bosman earned R3 097 000 in salary during 2003, which is 105 times the R2 200 a month for the lowest-paid ABSA worker.[14] These figures suggest that Sexwale is almost 1000 times more valuable to the ABSA shareholder than its chief executive, who is charged with the responsibility of running a large and complex organisation in a competitive market place.

Structuring deals so that the buyer will be funded out of higher growth means little or no risk to existing shareholders. There are some risks to the BEE party in that their share of the enterprise will be limited by the extent of the share price growth, but there is usually no downside risk. They typically do not put capital at risk even though they may have already amassed a more than modest portfolio of assets and/or options from empowerment proceeds. The risk to black entrepreneur X is that he signs up with company A rather than B, when he has a choice of both and B significantly outperforms A.

Business Times reported that Ramaphosa's deal with Standard Bank would make him R26 million richer in 17 years' time if Standard shares remained at the then current price.[15] These numbers suggest that Ramaphosa's deal with Standard is worth about R1,5 million a year over the 17-year period of the deal, even without share price growth. But R26 million is only 0,04 per cent of Standard's market capitalisation (at constant prices). Standard's BEE deal with Ramaphosa also provides him with risk-free capital to give him 0,04 per cent of the company. The R26 million refers to the discount element, the amount at which the deal was structured below the ruling price. As is the norm in most of these deals, Ramaphosa puts nothing down but over a period ends up owning a big stake – in this case 0,04 per cent – of a large, listed company.

Where companies are involved, there can be very few beneficiaries indeed. Patrice Motsepe and family trusts are the only empowerment beneficiaries in African Rainbow Minerals.[16]

Macozoma's Safika, which appears to have featured in dozens of BEE transactions, including one thwarted deal where he was bidding to buy Putco shares for one cent, has just six shareholders. Three of them, Macozoma, Cuba, and Ngoasheng, own 60 per cent of the equity. Sexwale owns 35 per cent of Mvelaphanda and Ramaphosa 30 per cent of Shanduka, two other BEE high fliers.

Sexwale has a white adviser who has scored richly from empowerment. Mark Wilcox has a 10 per cent stake in Mvelaphanda – valued at about R100 million – meaning that when these empowerment deals were done, he got one share for every 3 that Sexwale scored. Wilcox, too, is white and in no way qualifies as an empowerment beneficiary, neither as dictated by the 2003 BBBEE act, nor in terms of the draft code of good practice published in December 2004 (which restricts BEE beneficiaries to African, Indian and coloured South African citizens). Robert Nisbet and Santie Botha of MTN, who are responsible for finance and marketing respectively, are empowerment beneficiaries in a mysterious deal with the Public Investment Commissioners. The mechanics of the deal have never been explained, but it means that after salary and share options, the two also benefit from share options worth probably R100 million (Nisbet) and R20 million (Botha).[17] Although the BEE policy curtails the freedom of the private sector, it also holds out potential benefits, both short and long term. The private sector has, in fact, not vigorously opposed BEE. The reasons for this can be summarised as follows:

- The Preferential Procurement Framework Act of 2000 provided that the empowered would be given preference in bidding for R100 billion a year in government business.
- Private companies have begun to use BEE scorecards to run their own procurement policies.
- While there are risks in concluding deals in a fluid policy environment, there are advantages too. The deal can be presented as a fait accompli when the charter and advisory councils begin life.
- Empowerment itself has become a boom industry. The corporate finance divisions of the major banks are major beneficiaries of empowerment deal making. They could hardly be active in this work while head office remains in non-empowerment mode.
- Political pressure to deracialise the economy has been growing, as was evident in the president's 2003 state of the nation address at the opening of parliament.[18]
- High-profile black businessmen were in short supply, as is evident in their under-representation on the JSE. Quick movers were able to secure the best-connected and most influential black business leaders as partners.
- Markets do not like uncertainty. Concluding an empowerment deal reduces uncertainty (even in a less than certain policy environment).
- Shareholders have responded well to empowered companies, empowerment ratings company Empowerdex noting that their share prices improved by 11,4 per cent in the 41 weeks before and after an empowerment deal.[19]
- There is sufficient track record to confirm that reforms implemented by the new government are working and that the overall financial management is sound.
- Economic prospects, driven by strong commodity prices, were looking good. The rand was strengthening, interest rates were on their way down, inflation was low, property was booming, and equity prices were recovering.
- There is genuine enthusiasm to embrace and be part of the new South Africa.

However, business has also been concerned about the growing interference in private sector affairs, of which BEE is only one element. That this is a legitimate concern can perhaps be inferred by the pressure exerted on the fuel giant Sasol. As discussed above, when Sasol made a statement to the United States Securities and Exchange Commission related to its secondary listing in New York that described empowerment as a potential business risk, it was promptly rebuked by Thabo Mbeki. It spoke of ‘enforced participation’ in empowerment.[20] Mbeki responded by saying that the company was ‘bad-mouthing’ South Africa abroad and would have to understand that empowerment is in its interest, ‘in like manner as the white population in our country, in general, is beginning to understand that democracy and non-racism guarantee them life, liberty and happiness’.

Sasol’s chief executive Pieter Cox said in response that Sasol considered BEE and transformation to be an economic imperative. It was the country’s biggest single investor, and was creating a R10 billion black empowerment liquid fuels business.[21]

This spat was then followed by a case where another wing of the government, the Public Investment Commissioner (PIC), clearly revealed just how BEE could interfere with business practices. The PIC has a 13,5 per cent stake in Sasol, which is the largest by any one party. It used this leverage to insist that a black woman, Imogen Mkhize, be appointed as a director of Sasol.[22] Sasol took the view that Mkhize was a suitable director but that appointment should be postponed to later in 2005. The issue came to a head in the first week of December 2004 when Sasol announced after its annual general meeting that Mkhize, who had been nominated by the PIC to the board, had not been accepted as a director. After some lobbying behind the scenes in the following few days, Sasol announced by the end of the week that Mkhize would be replacing non-executive director Jan Fourie, who was due to retire anyway on 1 January 2005.

THE BROADER BENEFITS: IS BEE DERACIALISING THE ECONOMY AND SOCIETY?

The BEE initiative is informed, firstly, by the idea that apartheid created a racially defined economy by systematically under-investing in black people and blocking their attempts at entrepreneurship; and secondly, by the perception that the first decade of democracy did little to reverse these inequalities. BEE is supposed to change this situation in a purposeful way. However, the policy as it is being implemented contains no strategy to ensure that empowerment benefits are more or less equally shared. There is no hint of any large-scale sale of state assets to individuals to achieve the joint goals of privatisation and empowerment at the same time. The government, if anything, has grown less keen on privatisation over time, moving rather to the current policy of restructuring state assets to provide lower input costs into the economy. This follows the high-profile privatisations of Iscor, in the apartheid days, and more recently that of Telkom. In both cases, privatisation has seen increased foreign ownership, and higher input costs for the economy. There has been no efficiency gain for the economy as far as these two inputs are concerned. Perhaps with these two failed cases in mind, the government appears to be slowing the sale of state assets, not that this was a vigorous programme in the first case. The focus was rather on restructuring Transnet and other state entities to provide better services and more competitive prices to South African companies. What does not fit in within the new, restructured state sector will be sold.

The government has also not put aside sufficient funds to bring about a general transformation of the economy. The rating agency Empowerdex has estimated that it will cost R400 billion to transfer 25 per cent of JSE companies to black ownership. The National Empowerment Fund (NEF) has a budget of just R2 billion a year for five years from government for BEE; the Industrial Development Corporation (IDC) made empowerment loans of just R2,03 billion last year; and the public investment commissioners have assets under management of R400 billion, but even at these numbers it would have to put up its entire asset base to fund R400 billion in transactions. Where, as the staff mission of the IMF annually asks, will the funding will come from?[23]

Participants in the FSC have estimated that the aggregate amount of new funding from the financial sector could exceed R75 billion over a ten-year period. But this amount would include funding infrastructure targeting socioeconomic development, the total bill for the latter being estimated by the FSC at R2 trillion. BEE has to be funded from the same pool of funds which will be used to make other important investments to overcome backlogs inherited from apartheid. If R400 billion is to be found to finance empowerment, this is R400 billion less for targeted social investments. The funding pool further diminishes in size when it is considered that government has announced a R165 billion programme to upgrade transport infrastructure under the control of state utility Transnet. It is likely, under these circumstances, that empowerment deals concluded with high-profile black businessmen will crowd out other, perhaps more important, funding requirements.

Empowerment is intended to broaden the participation of black people in the economy. The beneficiaries typically do not have the funds to pay for their shares nor put up assets as security. This is a major departure from the wealth creation process as it normally occurs in capitalist societies, which typically takes place through banks extending credit linked to some kind of security. The potential loss of the security to the bank focuses the minds of the borrowers who have to ensure that they are able to meet the cost of servicing the debt.

Two contrary possibilities suggest themselves:

1. South Africa, through the empowerment process, has found a new way to create wealth where assets can be leveraged for socioeconomic objectives to benefit targeted groups. This wealth creation process makes use of assets of the enterprise rather than the beneficiary.
2. The underlying economic reforms instituted since the advent of democracy in 1994 and/or the commodity prices boom linked to the voracious appetite of a rapidly-growing China are producing conditions of higher economic growth which are masking any potential negative economic effects associated with empowerment, and these will be exposed in a less exuberant market.

The first possibility is indeed intriguing. Is this a whole new way of creating wealth? The conditions in South Africa may be highly favourable for this process, and it may then be possible, when the current ten-year black empowerment process is over, to begin a new cycle targeting a new group of beneficiaries, say the poor, the unskilled, the disabled.

A building block of the present policy, while not stated in any speech or document, is that government never intended that there be an equitable distribution of empowerment benefits among black people. The process was never intended to transfer assets equally to all black households. White business likewise would support the creation of a black business elite as part of a prosperous black middle class. A society which has white Oppenheimers, should also have black Oppenheimers, this argument holds. Black empowerment could have been set up differently to ensure the beneficiaries were widespread, such as through the setting up of trusts, distributing dividends either through the treasury or government structures. Alternatively, a voucher system could have been used to ensure a more or less even distribution of benefits to black households. But while distributing the benefits of empowerment more equitably, this approach would have meant that black South Africans would still be absent from the ranks of the top money echelons of the society. The intention, stated or otherwise, and supported by established business, was to create a visible, wealthy, black asset-owning class. Few could have predicted, though, that so few would be able to draw so much of what was available for distribution.

A study by Empowerdex found that true black economic empowerment was unlikely in the foreseeable future unless there was a radical change in the structure of the deals and unless economic growth reached a long term sustinable level of at least five per cent a year.[24] Below this, utilising opportunities for black South Africans through ownership, employment equity, skills development, preferential procurement, enterprise development, and corporate social responsibility, it would take between 33 and 55 years for blacks to achieve economic parity, defined as owning half of the economic wealth of the country. If economic growth rose to 12 per cent, parity would take 12 years. 'However, a large number of the existing empowerment transactions focus solely on the transfer of voting rights with no significant transfer of capacity for black South Africans to create and accumulate wealth,' Empowerdex said. Much would depend on the sectors in which the empowerment took place. High-growth sectors such as transport and communications, finance, and property were likely to achieve real empowerment sooner than moderate- to low-growth sectors such as agriculture and mining.

THE COSTS OF BEE: IS IT HELPING OR HINDERING GROWTH?

Government has introduced major reforms such as lowering tariff barriers and has shown that it is prepared to introduce sweeping reforms such as those brought to transport utility Transnet, arms manufacturer Denel, and the telecommunications sector. But the question has to be asked whether the sector approach of the BEE legislation has not impeded the move to a more competitive economy by creating vested interests through cutting deals with black investors, rather than improving the competitive climate within the sector. Are some of the major players, for instance, happy to add empowerment to a plethora of regulations which already govern their industries, just as another mechanism for increasing the costs of market entry? Does empowerment favour the entrenched and the big, rather than the new, the small, and the emerging? There is likewise something of a discernible pattern where empowerment does take on a strong political hue. This is more often than not referred to as transformation, the idea being that a sector or state entity be transformed by significantly changing the racial hue of the entity or sector in question. In the case of Transnet, as an example, the process seems to have focused more on a preoccupation with colour rather than the need to take a key apartheid institution and transform it to be able to perform more efficiently in meeting the needs of a dynamic economy.

The result was that the underlying inefficiencies were not tackled, and growth has been curtailed because the creaking transport infrastructure has been unable to meet market demand. Transnet's inefficiencies, identified by the South African Chamber of Business (SACOB), as the leading impediment to growth, have even helped contribute to a stronger rand as some commodity prices are artificially high because Transnet cannot ship them fast enough to market. The stronger rand depresses exports and is a further growth constraint. Examples of Transnet's inefficiencies are a bloated head office and multi-billion foreign exchange losses at airways subsidiary South African Airways. Government has moved on the parastatal, giving Maria Ramos the job of increasing efficiency, providing competitive-priced services to business, and overseeing multi-billion rand infrastructure upgrades. The Transnet reform imperative is a kind of bellwether for the rest of the economy. Likewise, Telkom was shaken by government's sudden announcement that the sector would be significantly deregulated in February 2005. This, by and large, is government's approach. It faces significant pressure to make the economy more competitive and to deliver more services to the disadvantaged. These pressures will tend to override the potential for cosiness and complacency in both the public and private sectors.

BEE needs a credible financing component for it to succeed. Without this it will not be sufficiently broad-based, and investment funds could be transferred into asset transfers with the danger of a flow of funds out of the economy from the sellers of the assets. The DTI itself has pointed out that 'both outcomes are socially, economically and politically dangerous. In an economy where the rate of savings and investment is still too low for our developmental needs and where our ability to attract foreign saving is dependent on our growth and overall economic environment, it is clear that any financing strategy should not jeopardise domestic or foreign sources of saving or investment. In short, BEE has to be part of our overall growth strategy.'[25]

The following must be taken into account:

- BEE cannot be financed through massive debt, large-scale deficit financing, or by an excessive sovereign contingent liability;
- growth must be raised through higher investment, so South Africa has to remain attractive to domestic and foreign investors;
- financing must be available for all sizes of enterprise; and
- commercial risk must remain within the private sector. The state will facilitate access to capital and collateral but will not assume commercial risk.[26]

The state has, however, not quantified what the total cost of BEE will be, nor where the funding will come from. The BEE strategy document notes that R25 billion is available (presumably annually) in the venture capital market for investment, but that this money goes largely to 'safe' investments. The picture is puzzling when we stop to consider how empowerment will be funded. Empowerment beneficiaries typically do not have the capital to pay for the assets earmarked for sale to them. They certainly do not have the R400 billion needed to transfer 25 per cent of JSE companies to black ownership. This suggests that about R40 billion a year will have to be found over the ten-year empowerment period. This excludes funding privatisations, new enterprises, and unlisted companies, and amounts to 3,3 per cent of current GDP. Compare the R40 billion annual average requirement with figures published by the UN Development Programme (UNDP) which show that the private sector recorded an average R24 billion in net investment in South Africa between 1994 and 2002, and total real investment of R100 billion in

2001, 14,8 per cent of GDP.[27] This means that empowerment funding will consume 40 per cent of total real investment just to fund listed companies.[28]

There are clearly opportunity costs associated with BEE deals, in that capital is tied up to finance the deal. It is also possible that, with a potential funding shortfall in the hundreds of billions of rands, early movers saw that capital shortfalls were likely to arise. They could even potentially find themselves with a competitive advantage against latecomers still struggling to raise capital and find suitable (well-connected) business partners. FirstRand's empowerment deal took 18 months to complete because as a late starter in the financial sector it struggled to find local funding. The deal that was eventually concluded in February 2005 relied on 12 international institutions for much of the funding.[29] The effects of BEE on broader and faster economic growth are therefore not easy to quantify. But, in directing funds away from capital expansion and deepening, in raising the costs of market entry, and in creating a future funding crunch, BEE certainly contains negative economic implications.

IMPLICATIONS AND FUTURE DIRECTIONS

Many BEE beneficiaries sit on the ANC's highest decision-making body, which may be why business has been prepared to pay huge premiums to secure their participation. The high-profile deals which these BEE gentlemen – as deputy president Phumzile Mlambo-Ngcuka called them when she was minister of minerals and energy – have secured, have not been with government. But their political connections have increasingly embroiled them in controversy. Prudence would have led them to resign their political positions in the ANC and concentrate on business dealings on an arms-length basis where appropriate with government. Their continuing to hold these positions suggests that they have political aims, even ambitions, or see both political and business advantage from their dual interest. All this means that they are becoming the epicentre of a major political row. Their dual role has led to tension with other members of the ANC's national executive committee, with Cosatu arguing that their wealth precluded them from being able to speak for the broad membership base of the ANC and that they should step down from the NEC.[30] Macozoma responded by saying that they brought a much-needed business perspective to the ANC and as such should be retained on the committee.

This debate takes place against the backdrop of internal manoeuvring within the ANC around finding a successor to president Mbeki at the end of the current parliamentary term. No candidates to date have thrown their hat into the ring, although before he was dismissed, ex-deputy president Jacob Zuma indicated he was the likely successor because of the office he already held. It is speculated, though, that both Cyril Ramaphosa and Tokyo Sexwale have presidential ambitions. Ramaphosa is influential within media circles, being chairman of Johnnic and MTN, while both certainly have the financial wherewithal to throw resources into winning the presidency if they so desired. If this were to happen, South Africa could find itself with a president who had a billion rand or so in business interests. Tension within the ranks of the ANC will definitely grow in the coming period around the issue of the new über wealthy within its ranks. The presidential succession is already a major source of tension within the ruling alliance and the apparent enrichment of a tiny elite is the key divisive issue, particularly in that this controversy embroils three members of the ANC's executive and probably two contenders for the top job.

As the political heat around the continuing empowerment of a tiny elite has intensified, president Mbeki has entered the fray, responding to Archbishop Desmond Tutu's comment that BEE amounted to a few beneficiaries who were recycled time and again, by saying that this was beyond the control of the government. Mbeki said these deals were initiated by the private sector, arguing that it could not be prevented from striking deals with whom it chose. The argument is correct to a point, at which it becomes disingenuous. Empowerment is a politically driven process arising out of an historical circumstance. The overall policy framework is the responsibility of government. Its act anticipates what needs to be done, such as establishing the advisory council and issuing a formal strategy document and codes of good practice. Where the process has fallen down is that government has not yet put an advisory council in place, nor issued the formal strategy, and has been tardy in publishing the codes of good practice.

Handing out deal after deal to Ramaphosa and company is not good practice. A proper advisory council and/or codes of good practice could have ensured that BEE ownership to date would have been more widespread, as demanded by the act. An interim task team that has stood in for the advisory council includes four prominent beneficiaries of empowerment deals: Cyril Ramaphosa, Saki Macozoma, Tokyo Sexwale and Patrice Motsepe. This is clearly a case of some of the players appearing to double as referees. The act is largely silent on the need for independent monitoring of the BEE process, but one of the codes published in December 2004 establishes a BEE ratings agency which is accredited to rank enterprises in terms of the scorecard and report its findings to government and the empowerment councils. The deals have begun in earnest. The monitoring will come later. When the charter and advisory councils do begin collating the beneficiaries they will be presented with a fait accompli as far as a narrow set of new owners are concerned.

A notable absence in the policy debate is any attempt to apply econometric modelling to empowerment, so as to arrive at projections based on what levels of economic growth are required to generate sufficient resources to fund the needs of the new South Africa. This technique would also be used to study the available skills and the economy's capacity to develop new skills for the high-growth scenarios. The absence of such modelling, and of any attempt really to deal with the massive funding requirements of addressing apartheid's legacies, is a key manifestation of the central thesis here: that empowerment in South Africa is caught between a political rock and an economic hard place. It is, in essence, an ongoing attempt at compromise between political imperative and economic reality. The greater the differences at the point of departure, and the greater the pressure and urgency for reform, the more skewed the outcome will be.

CONCLUSION

President Mbeki is right when he says that ownership constitutes a limited part of overall empowerment. It amounts to just 20 per cent of the scorecard. But ownership makes the headlines. A huge controversy surrounds the oligarchs who almost magically have been able to secure more than the lion's share for themselves. This will intensify as some of the personalities involved appear to be in the running in the presidential succession stakes. It is also easy to speculate, given the size of some of the contracts involved and the maze of numerous contradictions which characterise empowerment, that significant sections of the edifice may be subject to legal attack. The name of relevant act may refer to broad-based black economic empowerment, yet a manifest few have been able disproportionately to enrich themselves.

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PART 4

Economic policy: GEAR and after

CHAPTER 7

GROWTH IN SOUTH AFRICA

Merle Holden

The growth performance of the South African economy is typical for a country dependent on fluctuating demand for natural resource products. In addition to this basic condition, external shocks through the terms of trade, interest rate, and capital flight, as well as debt crises, have impinged on the economy from time to time. Institutional and policy failures in the past (and, according to some critics, in the present), as well as adjustment of the economy to ongoing transformation and restructuring, are further factors affecting growth performance.

This chapter begins with a brief literature review of the major factors in the growth process, particularly in a developing country such as South Africa. It also draws the distinction between long-run growth trajectories and cyclical movements in gross domestic product (GDP), a distinction that appears to have been missed in the financial press in South Africa. It then proceeds to examine the determinants of growth in South Africa, finally attempting some forecasts of future growth before concluding with some policy recommendations.

William Easterley's lightning review of fashions in explaining and promoting growth provides a useful introduction to the vagaries and frustrations of the subject.

> It started with foreign aid to fill the gap between 'necessary' investment and saving. Even after some of us abandoned the rigidity of the 'necessary' investment idea, we still thought investment in machines was the key to growth. Supplementing this idea was the notion that education was a form of accumulating 'human machinery' that would bring growth. Next, concerned about how 'excess' population might overwhelm the productive capacity of the economy, we promoted population control. Then, when we realised that government policies hindered growth, we promoted official loans to induce countries to do policy reforms. Finally, when countries had trouble repaying the loans they incurred to do these policy reforms, we offered debt forgiveness.[1]

Economists employed in international institutions are not alone in their puzzlement over the growth process. The empirical work that has been undertaken by economists to explain country growth performance has incorporated a variety of variables, ranging from educational attainment, life expectancy, public spending on education, investment ratios, government consumption, the black market premium on foreign exchange, political instability, and the terms of trade, to variables capturing the openness of the economy.

Whatever the variables emphasised, the theories of economic growth have been developed around a long-run view of the growth process and its fundamental determinants. When dealing with the growth experience in a country over shorter intervals of time, the issues are often somewhat different. For example, at the present time the financial press is concerned about the appreciating rand. Its impact on company profitability and the interface between inflation targeting, growth, and a more depreciated rand are critical for the short-run outlook for the economy. It is important to bear in mind, however, that the earlier factors mentioned in this chapter are rather more focused on the long-run trends underlying growth in South Africa.[2]

GROWTH FACTS IN SOUTH AFRICA

It is instructive for the reader to take a close look at the annual growth rates in GDP and GDP per capita in South Africa. Annual growth rates are shown largely because quarterly data is notoriously unreliable and subject to constant revision by the Reserve Bank. These rates of growth are shown in tabular (table 1) as well as graphical form (figures 1, 2, and 3) for the period 1970 to 2002.

While GDP has slowly grown over the last 32 years (table 1 and figure 1), performance is far from sparkling. A steady growth rate of approximately 2,2 per cent a year over the period (equivalent to the rate of population increase 1970–2002) has hardly been able to effect an improvement in per capita GDP, as can be seen from table 1. Nevertheless, there have been periods when growth driven by improved terms of trade raised per capita incomes. In 1981, just prior to the decline in the price of gold, per capita GDP peaked in 1995 prices at R16 347.

Fedderke[3] uses the Reserve Bank's revision of its measure of GDP in the 1990s to support his contention that growth is in secular decline. However, the graphs and the revised data prepared for the purposes of this chapter suggest that there is little evidence to support Fedderke's contention. There is more support for the view that the economy has been fluctuating around a low-level long-run growth path that has had very little impact on poverty and unemployment. This chapter will endeavour to explain why growth in South Africa has been at this level.

In the 1950s and 1960s, the performance of the economy was more buoyant. Import substitution policies combined with higher commodity prices to stimulate the economy. This resulted in average rates of growth of 5 per cent a year.

During these periods of higher growth, government planners viewed 5 per cent a year as the maximum growth the economy could achieve, given the shortage of white skilled labour in the economy.[4] The question uppermost in economists' minds today is why rates such as these are not being achieved. Why are rates of growth of 8 to 10 per cent a year, which have been seen in parts of East Asia, so elusive?

Table 1: GDP in 1995 prices and GDP per capita: levels and rates of growth

Year	GDP Rm	Growth %	GDP per capita (rands)	Growth %
1970	324 466	5,2	14 430	2,4
1971	338 349	4,3	14 686	1,8
1972	343 948	1,7	14 570	-0,8
1973	359 674	4,6	14 872	2,1
1974	381 653	6,1	15 420	3,7
1975	388 124	1,7	15 332	-0,6
1976	396 856	2,2	15 324	-0,1
1977	396 483	-0,1	14 948	-2,5
1978	408 435	3,0	15 025	0,5
1979	423 917	3,8	15 240	1,4
1980	451 983	6,6	15 889	4,3
1981	476 213	5,4	16 347	2,9
1982	474 387	-0,4	15 914	-2,6
1983	465 627	-1,8	15 267	-4,1
1984	489 370	5,1	15 689	2,8
1985	483 441	-1,2	15 162	-3,4
1986	483 528	0,02	14 834	-2,2
1987	493 685	2,1	14 825	-0,1
1988	514 421	4,2	15 128	2,0
1989	526 740	2,4	15 167	0,3
1990	525 066	-0,3	14 806	-2,4
1991	519 720	-1,0	14 352	-3,1
1992	508 613	-2,1	13 755	-4,2
1993	514 887	1,2	13 637	-0,9
1994	531 539	3,2	13 786	1,1
1995	548 100	3,1	13 920	1,0
1996	571 705	4,3	14 218	2,1
1997	586 837	2,6	14 291	0,5
1998	591 267	0,8	14 099	-1,3
1999	603 290	2,0	14 086	-0,1
2000	624 379	3,5	14 293	1,5
2001	642 038	2,8	14 411	0,8
2002	661 147	3,0	14 554	1,0

Figure 1: GDP (Rm)

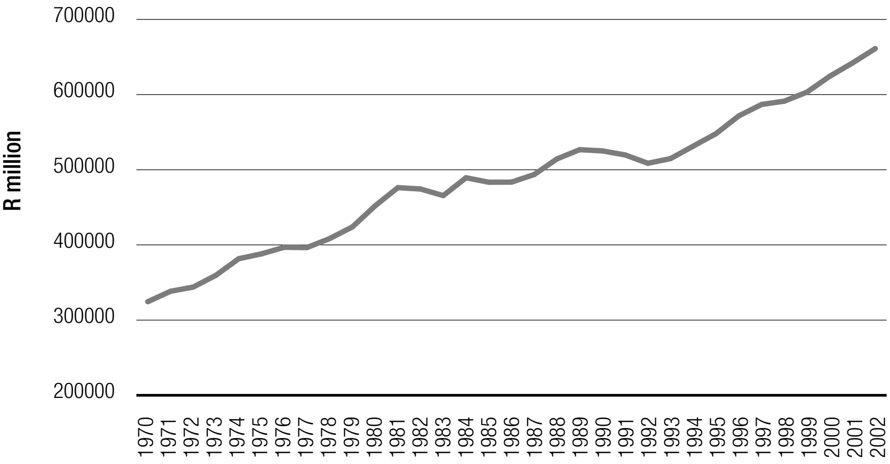


Figure 2 : Growth in GDP (%)

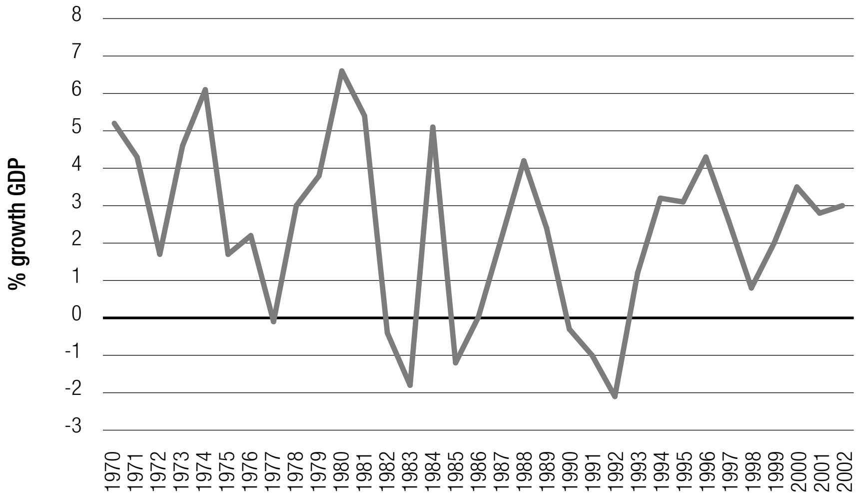
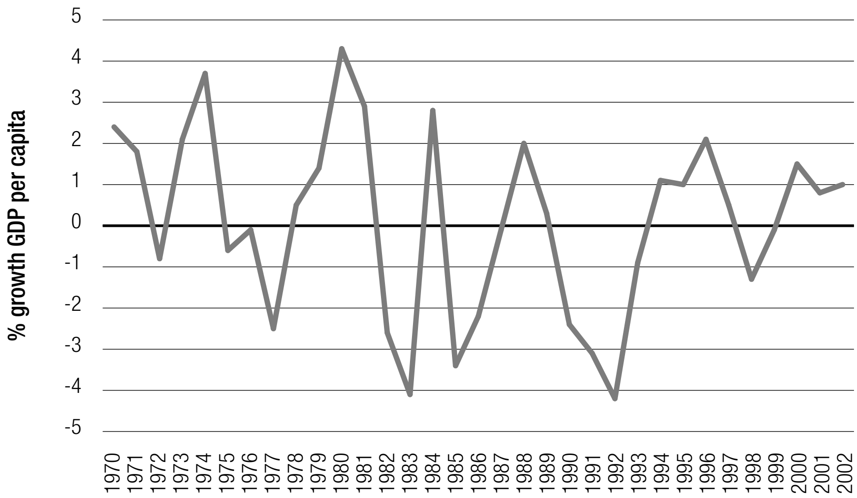


Figure 3: Growth in GDP per capita (%)



THE DETERMINANTS OF GROWTH IN SOUTH AFRICA

The external sector and the role of external shocks

The 1950s and 1960s were characterised by a high degree of import substitution, primarily in the consumer goods sectors considered strategic to the interests of the government of the time. In decomposing the contribution to growth in the 1970s and 1980s, the World Bank calculated that from 1972 to 1983 manufacturing output expanded by 50,1 per cent. Of this, export expansion accounted only for 2,5 percentage points, import substitution 3,9 percentage points, and domestic demand expansion 44,6 percentage points. These results can be contrasted with the period 1983–90, during which output in manufacturing expanded by 3,5 percentage points, export expansion accounted for 5,3 percentage points, import substitution –3,3 percentage points, and domestic demand expansion 1,6 percentage points.[5] These results suggest that in the later period, the bias against exports inherent in the earlier import substitution policies had been reduced.

Unfortunately this decomposition analysis has not been conducted for the 1990s, leaving a lacuna in the literature. This makes it impossible to compare the later period directly with the earlier. However, Edwards' analysis of the external sector's impact on the labour market yields some useful results. Using an input–output methodology, Edwards decomposed demand-side factors such as domestic demand expansion, export expansion, import substitution, and technological change. Edwards found that in the period 1993–7, employment gains due to export expansion outweighed the losses from import penetration – the negative of import substitution – by 60 436 jobs. Final demand had expanded jobs by 642 176 and technology decreased jobs by 930 863 workers. Overall, therefore, the job market shed 228 241 jobs over the period.

This decomposition analysis also shows that the external sector or net trade was to the benefit of elementary and unskilled workers (3,24 per cent), rather than skilled and semi-skilled workers (1,99 per cent), and that trade promoted output and employment growth.[6] However, once again domestic demand was the major driver behind output expansion and employment. More importantly, technological change had a devastating impact on the number of jobs in all categories other than the skilled.[7]

The 1990s were characterised by trade liberalisation under the auspices of the World Trade Organisation (WTO). Partial liberalisation also occurred with the formation of the Southern African Development Community (SADC) Free Trade Protocol, the SA-EU Free Trade Agreement, and, more recently, the Africa Growth and Opportunity Act (AGOA) with the United States. There has been a debate about whether these changes can be defined as 'real liberalisations',[8] but whatever stance one adopts, it cannot be denied that both export propensity and import penetration rose during the period. This represents *prima facie* evidence of the increasing openness of the South African economy. Changes in the import penetration ratios and the export intensities over the period 1993 to 1996, before and after the major liberalisation occurred, are shown in table 2.

Import penetration ratios in manufacturing industry rose from an average of 18,5 per cent in 1993 to 26,1 per cent in 1996. As trade is liberalised, resources are reallocated towards export activities, away from import-substituting activities, but the costs of adjusting to a new set of relative prices must not be underestimated. Textiles, clothing, wood products, other nonmetals, and the motor industry did not at first appear to respond to the new trade regime. However, more recent data reveal an increase in both exports and imports in these sectors. Over the period 1993–6, export intensities increased on average 40,6 per cent. The lesson that can be learned from these data is that it takes time for the full effects of getting prices more aligned with efficient market outcomes to filter through.

Table 2: Changes in import penetration ratios and export intensities (1993–96)

Industry	% Change import penetration	% Change export intensity
Food industries	124,5	25,6
Beverage industries	75,3	92,3
Tobacco industries	33,5	42,7
Textiles	-4,7	-27,2
Wearing apparel, excl shoes	109,2	-15,0
Leather products	81,5	77,4
Footwear	266,5	29,6
Wood and wood products	19,2	-40,3
Furniture	95,6	68,5
Paper and paper products	82,7	77,1
Printing and publishing	34,9	514,9
Industrial chemicals	48,2	49,8
Other chemical products	-26,8	141,0
Rubber products	63,3	114,5
Plastic products	197,8	135,6
Pottery and china	108,9	106,4
Glass and glass products	100,9	47,1
Other non-metallic products	76,3	-44,3
Basic iron and steel	99,2	40,0
Basic non-ferrous metal industries	93,0	69,8
Fabricated metal products	10,2	293,1
Machinery	37,7	56,3
Electrical machinery	118,2	84,4
Motor vehicles and parts	22,8	-7,1
Transport equipment	-40,0	-64,8
Other producers	7,9	89,9
Average	41,0	41,7

Source: Author's calculations on data from Central Statistical Services.

The external sector of the economy inevitably looms large in the search for drivers of economic growth. Part of its impact is to be found in changing terms of trade. Terms of trade are measured by the price of exports relative to the price of imports. Therefore, when exports prices rise and the terms of trade improve, a country is able to buy more imports for the same quantity of exports, and real income rises. Economists have debated the manner in which the terms of trade for developing economies have been changing. The Prebisch thesis postulates that as world income rose, the demand for basic commodities would fall relative to other goods. This means that demand for manufactures and services would rise relative to basic commodities, and their prices would accordingly rise. Therefore the assumption was that developing countries such as South Africa would, over the long term, experience a decline in the terms of trade and a concomitant decline in welfare. Easterly suggests that this hypothesised decline has not occurred. He states that 'commodity prices on average do not decline relative to manufactured goods, after adjusting for the rising quality of manufactured goods'.[9]

Nevertheless, South Africa has experienced rapid swings in the terms of trade, particularly over the period 1978–85. These are shown in table 3. The impact of changes in the terms of trade can be estimated in the following manner. The change in terms of trade over the period is multiplied by the share of imports in GDP. These effects are estimated for three important periods in South Africa's economic history, 1978–80, 1980–5 and 1997–2000. The first period covers what turned out for South Africa to be a favourable terms-of-trade shock. Although the price of oil doubled in this period, the gold price increase more than outweighed the negative shock. In the second period, the price of gold fell drastically, and the country suffered an adverse shock. The last period covers the impact of the East Asian crisis and its aftermath in the run-up to the bursting of the dot-com bubble. Once again this was an adverse terms-of-trade shock.

Table 3: Terms of trade including and excluding gold, seasonally adjusted

	1970–2002	(1995 = 100)		
Year	Terms of trade excluding gold, actual data	Percentage Change	Terms of trade including gold, actual data	Percentage change
1970	140,9	-3,6	81,8	-6,8
1971	130,7	-7,2	83,7	2,3
1972	125,4	-4,1	91,6	9,4
1973	136,1	8,5	109,9	20,0
1974	129,9	-4,6	118,7	8,0
1975	119,8	-7,8	107,9	-9,1
1976	116,9	-2,4	97,8	-9,4
1977	119,2	2,0	102,5	4,8
1978	114,4	-4,0	104,0	1,5
1979	107,6	-5,9	109,2	5,0
1980	99,7	-7,3	121,9	11,6
1981	96,0	-3,7	105,6	-13,4
1982	87,5	-8,9	93,6	-11,4
1983	84,4	-3,5	95,1	1,6
1984	93,0	10,2	100,6	5,8
1985	94,9	2,0	103,8	3,2
1986	98,7	4,0	107,5	3,6
1987	101,2	2,5	110,9	3,2
1988	100,4	-0,8	108,4	-2,3
1989	98,5	-1,9	102,5	-5,4
1990	99,8	1,3	100,4	-2,0
1991	98,1	-1,7	98,9	-1,5
1992	99,2	1,1	97,7	-1,2
1993	98,0	-1,2	98,4	0,7
1994	100,4	2,4	101,5	3,2
1995	100,0	-0,4	100,0	-1,5
1996	99,3	-0,7	101,4	1,4
1997	100,5	1,2	100,2	-1,2
1998	99,7	-0,8	99,3	-0,9
1999	97,4	-2,3	96,5	-2,8
2000	95,4	-2,1	94,6	-2,0
2001	95,7	0,3	94,8	0,2
2002	96,3	0,6	97,1	2,4

Table 4 shows the calculations of the impact of the changes in the terms of trade.

Table 4: Terms of trade effects

	Percentage change in terms of trade (1)	Import share as percentage of GDP (2)	Real income effect of terms of trade (3) = (1) x (2)/100
1978–80	+17,5	25,6	+4,5
1980–5	-15,8	25,8	-4,1
1997–2000	-6,9	25,9	-1,8

Table 1 shows that in the earlier buoyant period, GDP increased by 10,4 per cent. According to the calculations in table 4, 4,5 percentage points, or 43 per cent, can be attributed to the improved terms of trade. This significant windfall gain to the economy was followed in 1980–5 by an adverse terms-of-trade shock of 4,1 percentage points (table 4). Table 1 shows that GDP grew by a mere 1,7 per cent over the period. If the terms of trade had not changed adversely against South Africa, the growth over the period would have been 5,8 per cent. Over the period 1997–2000, the real income effect of the terms-of-trade decline is calculated at negative 1,8 per cent. Again, if the East Asian crisis had not occurred, growth for the period would have been significantly higher. The lesson here is that it is very dangerous to assume that the South African economy operates in a vacuum. Events in the rest of the world impinge on the economy, sometimes bringing windfall gains, but also losses. During periods of plenty it is also important for policymakers to husband their resources. An example of such prudence is the management of diamond revenues by the Botswana government. On the other hand, the grand apartheid schemes launched in the gold boom years are classic examples of the profligate use of windfall resources.

Decomposition of growth in GDP

Fedderke has decomposed growth in GDP into its component parts, using the methodology of deriving total factor productivity as a residual. Table 5 gives the results of his calculations.

Table 5: Decomposition of growth in real GDP by economic sector

Sector	Growth in real GDP	Labour's contribution	Capital's contribution	Technology residual
Total economy				
1970s	3,21	1,17	2,54	-0,49
1980s	2,20	0,62	1,24	0,34
1990s	0,94	-0,58	0,44	1,07
Agriculture, forestry, fishing				
1970s	4,27	-0,10	2,00	2,37
1980s	4,30	-0,24	-0,56	5,10
1990s	2,40	-0,20	-0,92	3,52
Mining				
1970s	-1,08	0,51	3,81	05,40
1980s	-0,55	0,18	3,90	-4,63
1990s	-0,60	-2,32	0,10	1,62
Manufacturing				
1970s	4,94	1,67	2,78	0,49
1980s	1,48	0,78	1,21	-0,52
1990s	0,43	-0,47	1,69	-0,79
Services				
1970s	3,41	1,49	2,80	-0,88
1980s	2,81	0,82	1,28	0,71
1990s	1,50	-0,59	0,44	1,65

Source: Fedderke.[10]

This decomposition analysis is drawn from the original Solow work and the attempt to ascertain the role of technology. Barro and Sala-i-Martin point to the limitations of growth accounting procedures by observing:

> Growth accounting may be able to provide a mechanical decomposition of the growth of an array of inputs and growth of total factor productivity. Successful accounting of this sort is likely to be useful and may stimulate the development of useful economic theories of growth. Growth accounting does not, however, constitute a theory of growth because it does not attempt to explain how the changes in inputs and improvements in total productivity relate to elements – such as aspects of preferences, technology, and government policies – that can be viewed as fundamentals.[11]

Bearing mind these limitations, let us examine the decomposition. For the economy as a whole, what is striking is the decline in the contribution made by labour. Markedly, it makes a negative contribution in the 1990s. The capital contribution also consistently falls, while technology has shouldered the burden of contributing very heavily to growth, in the 1990s in particular. Investment and employment in the formal sector have both declined over the decade. We will return to these data later in the chapter. Technology was also highlighted in the Edwards decomposition, showing that it had played a fundamental role in the shedding of jobs during the period of trade liberalisation. At this juncture we hit the problem of deciding what driving the process here was. Can technology be said to play an independent role in strengthening growth processes when there is clearly a close relationship between the embodiment of technology in capital, and the saving or substitution of labour in the productive process?

In the broad sectoral breakdown, Fedderke's calculations show some interesting differences. The contribution to overall growth is high in agriculture, while labour and capital have experienced a declining contribution. Of all the sectors, the contribution by technology is highest in agriculture.

The mining growth figures are a little puzzling. The activity statistics at the Reserve Bank do not yield evidence of negative growth in mining output. Both labour and capital contributed positively to growth in the 1970s, while it is suggested that the mines in fact went backwards technologically during a period of rising prices for mining output. There is probably an error here in the deflation techniques used on the Fedderke data to arrive at real output. Because of the nature of the mining industry, it may be advisable to ignore this part of the calculation.[12] The 1980s and 1990s were periods of decreasing prices on world markets, and therefore one can accept that the industry contracted output and closed down mines. In the 1990s, labour was rapidly shed in an attempt to cut costs. The positive residuals, furthermore, suggest a greater use of technology.

Rapid output growth in manufacturing in the 1970s reflects the continuing success of the import substitution regime in that decade. But the regime ran out of steam in the 1980s, and in the 1990s manufacturing struggled to adjust to the changes in trade regulations and the spillovers from the East Asian crisis.

Service industries have enjoyed positive growth over the three decades, with the greatest contribution in the 1970s coming from capital investment in the industry. Technology only starts to play a significant role in the 1990s. The results in this sector also raise some interesting questions surrounding the contribution made by labour. Services are well known to be labour intensive, and yet a negative contribution by labour in the 1990s shows that services, like the other sectors, has tended to economise on the use of labour.

The variability in data for particular industries within the manufacturing sector raises doubts about the manner in which the nominal data are deflated. To counter this problem, average annual rates of growth in each industry at the three-digit level are computed for the periods 1970–9, 1980–9 and 1990–2000. These are shown in table 6.

Table 6: Average annual rates of growth in manufacturing industries for selected periods (%)

Industry	1970–9	1980–9	1990–2000	Average
Food	5,6	1,1	2,0	2,8
Beverages	6,6	7,0	0,6	4,8
Tobacco	1,7	0,5	-0,4	0,6
Textiles	-63,2	3,4	3,6	-18,6
Wearing apparel	4,5	3,5	1,7	3,3
Leather	10,7	-1,3	7,8	6,0
Footwear	4,6	2,8	-2,0	1,7
Wood products	153,9	-2,0	8,1	53,6
Paper products	11,7	5,7	17,3	12,1
Printing	34,5	-9,7	-13,0	3,5
Coke	12,6	7,3	9,3	10,0
Basic chemicals	-243,8	-26,0	494,9	91,5
Other chemicals	6,4	0,1	3,2	3,4
Rubber	3,5	-0,2	5,5	3,1
Plastics	6,6	4,1	-154,2	-53,0
Glass products	-14,8	121,4	-112,7	-5,8
Nonmetallics	6,5	-0,4	-7,8	-0,8
Iron and steel	66,3	7,2	4,9	26,3
Nonferrous metals	-39,8	4,8	-6,4	-14,0
Fabricated metals	9,6	-1,6	3,7	4,1
Machinery	31,1	1,8	29,5	21,8
Electrical machinery	10,1	-1,0	6,3	5,3
Televisions, radios	9,0	5,6	29,3	15,6
Professional/scientific	-0,9	11,1	-3,7	2,1
Motor vehicles	5,2	2,6	0	2,6
Other transport	139,8	87,3	27,1	85,7
Furniture	0,9	6,7	4,6	4,2
Other manufacturing	-2,0	5,5	7,9	4,1

Source: TIPS standardised industry data.

For the majority of industries, the 1970s was an era of expansion in final output. During the 1980s, on the other hand, there is evidence of a decline in growth, with a few notable exceptions, such as glass. The 1990s again provide a mixed picture of growth. The basic chemicals sector was very buoyant (494,9 per cent on average), as were machinery (29,3 per cent), televisions (29,3), and paper products (17,3 per cent). Over the last 30 years there is evidence of restructuring in the manufacturing sector. Textiles, plastics, and nonferrous metals appear to have contracted while basic chemicals, wood products, iron and steel, machinery, and other transport equipment have grown. However, these data have to be viewed with great circumspection given the difficulty of ensuring consistency in the price deflators.

Labour market and growth

We now turn to the role of the labour market and the link between employment and growth. During the 1970s employment in the formal sector increased at an average rate of 2,05 per cent, but the increase fell to 1,12 per cent in the 1980s, and for the following decade actually declined, by -1,15 per cent a year. This phenomenon has been given the popular label 'jobless growth'. However, employment growth during the 1970s and 1980s has to be seen in perspective. If one takes into consideration population growth, then it is evident that even in these earlier periods unemployment was on the rise.

On a sectoral basis, the hardest-hit workers have been in the mining industry, followed by manufacturing, agriculture, and then services (table 7). It is only in the government sector that employment has increased. However, when compared with the annual increases in employment in the 1970s and 1980s of 5,87 and 3,47 per cent, the annual increase of 0,41 per cent is modest.

Table 7: Average annual growth rates in formal employment by major economic sector

	1970s	1980s	1990s
Agriculture, forestry, and fishing	-0,46	-1,29	-1,00
Mining	1,35	0,89	-6,37
Manufacturing	2,67	1,33	-1,20
Services	4,37	1,54	-0,84
Government	5,87	3,47	0,41
Total	2,05	1,12	-1,15

Source: Fedderke calculations based on Reserve Bank quarterly bulletins.

The effect of economic restructuring (led by the liberalisation of trade) on employment and earnings is a crucial economic and political issue. We have already discussed the Edwards work, but bearing mind that this study covered the entire economy, it is instructive to look at others. Haroon Bhorat[13] estimated the impact of trade flows on labour demand for two periods, 1970–95 and 1993–7. From 1970 to 1995, trade flows impact favourably on the employment of all categories of labour in manufacturing, with the skilled group benefiting most. From 1993 to 1997, however, Bhorat estimates a decline in employment overall, but with unskilled employment falling and skilled employment rising.

Fedderke *et al*[14], using a dynamic heterogeneous panel estimation, show that trade in manufactures has led to positive effects on the earnings of labour and capital, with labour gaining proportionately more than capital. Technology, as measured by total factor productivity, was estimated to have a negative effect on the earnings of both capital and labour. To summarise this research, the earnings of unskilled workers relative to skilled have been adversely affected by technology, but trade not only benefited labour relative to capital, but unskilled workers relative to the skilled. Due to econometric problems such as identification, one cannot unambiguously suggest that trade liberalisation had a positive impact on labour markets, but one can argue that inequality in manufacturing wages has been reduced.

The Bhorat and Fedderke versions can be reconciled by concluding that the reduction in estimated inequality in manufacturing wages between unskilled and skilled workers was purchased at the expense of the unemployed unskilled workers. Overall, therefore, inequality would have increased with the introduction of a new elite of employed workers.

Over the past 20 years, growth has neither been vigorous enough to absorb a growing labour force, nor even to increase employment in the formal sector itself. Employment has declined. There has been structural change as a result of the new incentives in the trade regime, but the research indicates that, on balance, trade cannot be blamed. The culprit appears to be technology, combined with rising wages for the unskilled. These two factors interact, making it very difficult to distinguish them empirically. It has been suggested by some commentators, who point to a negative elasticity of demand for labour, that wages are the main culprit. However, if this elasticity were not negative, then the principles of economics would not apply to the labour market.[15] The more important question is, how elastic is the demand for labour? To complicate matters further, we need to determine the extent to which technology has shifted the demand for labour, in particular unskilled labour, inwards. In other words, we need to determine how the demand for labour at all wage rates has been reduced by technology. This research remains to be done.

Most commentators seem to agree that there are problems in the labour market related to the institutional structures. Trevor Alleyne and Arvind Subramanian of the International Monetary Fund (IMF) conclude that despite relatively plentiful endowments of labour when compared with richer countries, South Africa appears to be exporting, in net terms, capital-intensive goods.[16] They question the functionality and flexibility of the labour market, given the very high levels of unemployment and underutilisation of labour resources. They attribute this pattern of trade to too high a cost of labour relative to capital, reflecting in part the effects of apartheid policies that encouraged capital-intensive techniques via market-distorting subsidies. However, they also mention relatively sticky wages, and significant non-wage costs, which include all the costs of compliance with the cumbersome labour legislation, as impeding efficiency and flexibility in the labour market.

In a companion working paper by Gunnar Jonsson and Arvind Subramanian, the relationship between trade and total factor productivity is explored.[17] Using firstly the share of imports plus exports in GDP, and secondly trade policy variables, they find a significant positive relationship between trade and total factor productivity in South Africa.

Drawing all this research together is no easy task. However, it seems that the labour market and the manufacturing sector have been hit by two main factors, technology and an inflexible labour market structure. The two factors are interlinked and this leads to the empirical difficulties. What is the main driver and what is the direction of causality? Is the technology exogenously imposed by the necessity to be competitive and up to date with new methods of production that are, by their very nature, labour saving? Alternatively, higher wages and the non-wage costs may have driven manufacturers to seek labour-saving technology in order to remain competitive. As with many problems in economics, there is a bit of truth in both of these scenarios and the central issue is to unravel the relationship.

Investment in South Africa as a determinant of growth

The relationship between investment and growth is universally contested. Central to the controversy is the distinction between short-run and long-run growth, and the paradox of thrift. If you take a short-run Keynesian view, saving is bad for growth. It withdraws funds from the circular flow of income, depressing the economy. However, in the longer run, savings finance investment and stimulate growth.

Taking a shorter view, investment is an injection into the income stream that stimulates the economy. Easterly looks at the impact of capital accumulation on long-run growth. He points out that in the long run, investment cannot be a source of growth.[18] The argument is a simple one. Certainly, in the short run, more spending stimulates the economy, but in the long run, diminishing returns set in, and growth cannot be sustained. Diminishing returns to investment also mean that high-saving economies would not be able to achieve higher sustained growth than low-saving countries. This points to the central role of technology in long-run growth. When entrepreneurs take the decision to invest, they are responding to the rate of return on capital being favourable, which in the long run will be determined by technology. Easterly gives many examples of countries with high investment rates but low growth – all located in Africa. On the other hand, he also gives examples of countries where capital accumulation was high and growth also high – countries in East Asia, in the main.

Gross investment in South Africa as a proportion of GDP has fluctuated over the last eight years. Table 8 shows the proportion falling from a high of 18 per cent in 1995 to a low of 14,7 per cent in 2001, to increase marginally to 15,1 per cent in 2002.

Table 8: Gross investment as a proportion of GDP

1995	1996	1997	1998	1999	2000	2001	2002
18,0	17,4	16,6	16,6	15,4	14,8	14,7	15,1

In a sample of 97 countries, Barro and Sala-I-Martin calculate a mean value for the investment rate of 19,3 per cent with a standard deviation of 8,5 per cent. This places the South African investment ratio in the lower part of the sample.

As we have seen, investment *per se*, will not necessarily solve the long-run growth problem. In South Africa during the apartheid period, state investment in parastatals, many of them white elephants today, would have had short-run Keynesian effects on the economy, but in the long run resulted in a waste of resources, most prominently in the form of Mossgas, Sasol, and Atlantis Diesel.

Fedderke attempts to come to grips econometrically with the determinants of investment. He concludes that uncertainty has had a deleterious effect on investment in South Africa, and that the real user cost of capital is negatively related to investment, while a positive relationship exists between investment and output. Although the measure of uncertainty used in this study is a little unusual, there is support for the notion that uncertainty will deter investment. In a World Bank survey of firms in the greater Johannesburg area, the high crime rate and the inflexibility of labour markets are cited as a major deterrent for investors.[19]

Given that investors' perceptions are important, and clearly included in the Fedderke subjective measure of uncertainty, the Zimbabwe effect should be mentioned at this juncture. A recent paper by Pretorius and De Beer[20] finds that there is little evidence to support trade contagion from the Zimbabwe crisis. Pretorius and De Beer take the view that the small decline in exports to Zimbabwe was more than made up for by the rapid increase in South African exports to other markets.

There was evidence of financial contagion, however, as the 1997 crisis in Zimbabwe fed into a broader emerging market crisis. Consequently, there was a greater correlation between the South African rand and the Zimbabwe dollar after 1997. Pretorius and De Beer conclude that the combination of being classified as an emerging market and the existence of a sophisticated and efficient financial market made South Africa very vulnerable to speculative attacks during the emerging market crisis.

A further issue affecting investment in South Africa is Afro pessimism. The growth determinants in cross-country regression models consistently return a negative and significant coefficient on the African dummy. As these are multiple regression models that contain a variety of other variables, they demonstrate that all the unfortunate events occurring in Africa, such as ethnic diversity and strife, poor institutional structures, closed economies, etc, cannot by themselves explain the performance of countries located in Africa.[21]

Economists are now starting to move into the area of transport costs and the health problems that arise from being located in the tropics. South Africa is not in the tropics, and until recently did not have the severe health problem that has emerged with the HIV/AIDS epidemic. However, given the distance from markets, South Africa does have a transport problem. Fortunately it is not land locked, but the cost of transport is nevertheless a major deterrent to exports.[22]

The debate on the impact of AIDS on growth in South Africa has similarly limited authority in both causal explanations and predictions. The publication by the World Bank (in July 2003) of economic projections of the effects of AIDS on the South African economy (under certain hypothetical scenarios) caused considerable heat. The report pointed out that under certain circumstances, if certain policy choices were not adopted, economic collapse within three generations could result. Although the South African government (and other critics) pointed out the limitations of the report, the economic effects of the pandemic remain a factor affecting confidence and other aspects of economic behaviour.

All these factors ensure that a degree of pessimism exists in world markets about Africa's prospects. The regression work on growth and investment bears this out in a formal setting. South Africa cannot fail to be affected by being located in such a neighbourhood. Investors deciding on where to invest their resources are driven by the desire for return and the existence of uncertainty. The uncertainty factor has impacted most on investment decisions in South Africa. Exchange rate movements and investment decisions are strongly influenced by 'news' disseminated through the popular press, television and investor reports.[23]

Education, human capital, and the skills/technology nexus in South Africa

Endogenous growth theory places great emphasis on innovation, new ideas, and the accumulation of appropriate skills and knowledge. The application of knowledge to drive the innovative process forward is critical for growth. Endogenous growth theories, as well as newer theories of international trade, stress not only increasing returns but also spillovers. In particular, it is technology that staves off the inevitability of diminishing returns.

There are different types of spillovers in the literature. They can emanate from investment in the physical capital stock, or from investment in human capital. Alternatively, innovation can occur directly from expenditures on research and development, either by the private sector or the state.

Fedderke has also examined whether any of these spillovers and research expenditures have been important in South Africa.[24] The results are persuasive. The growth of the capital stock variable is found to be negatively and significantly related to total factor productivity. This means that growth in capital has not been tied to technology as measured by the residual. Evidence of spillovers is found in two of the human capital variables that were included in the regression. The proportion of students taking matric mathematics, and the proportion of natural, engineering, and mathematical science degrees in total degrees issued by South African universities, were positively and significantly related with total factor productivity in the South African manufacturing industry over the period 1970–97.

Contrary to some expectations, total school enrolments and the total number of university degrees were negatively and significantly related to total factor productivity growth. This result is confirmed by Easterly in his work when commenting on the low return to the education explosion over the past four decades in developing countries. Easterly is of the view that formal schooling may well be a poor measure of the creation of appropriate skills. Finally, Fedderke finds support for the Schumpeterian view that resources devoted to research and development have impacted positively on total factor productivity growth in manufacturing industry in South Africa.

The legacy of apartheid can be tragically seen in the education system in South Africa. Furthermore, the last ten years of democracy have failed to address the problem. Fedderke, de Kadt, and Luiz[25] have systematically studied the education system in South Africa. They conclude that the wide disparities that are observed between the black and white schooling systems, in particular, are due to the poor inputs into the schooling process and inappropriate government structures. Unacceptably high pupil-teacher ratios, combined with low expenditures and unqualified teachers, tell a tale of a disintegrating school system, which has translated into poor performance among pupils.

Fedderke *et al*, in researching the university system in South Africa, find that the proportion of degrees granted in the natural, engineering, and mathematical sciences has declined for both the historically white and black universities. In addition, differential student performance between the two sets of institutions is paralleled by differential performance in research output. Research output, even in the higher-ranked institutions, appears to be on a downward trend.

It is apparent that the human capital aspect of the growth process requires the development of appropriate human skills that stimulate innovation, and allow people to absorb and use innovative ideas developed elsewhere. South Africa is failing in this regard. This is so due to, firstly, the legacy of apartheid, and, secondly, the inability of the democratic government to achieve quality and relevant education to match its undoubted achievements in access.

Economic growth, employment, income distribution, and poverty

This chapter has shown that despite positive economic growth, there has been substantial shedding of jobs in the formal sector of the economy. This became particularly marked in the mid-1990s, and raised questions about the flexibility of the labour market, real wage costs, and non-wage costs. Overall, the phenomenon is very unusual. Usually, when economies grow, jobs increase – perhaps not at the same rate, depending on real wages, but they at least increase. In this case, employment has declined in the formal sector, with positive economic growth in the economy as a whole. Recent data[26] seem to suggest that this trend may have finally bottomed out after eight years of continual decline. It is hoped that the recovery in employment will continue.

According to the World Bank, the average hours worked per week in South Africa has fallen from 42 in 1980–4 to 41 in 1995–9. At the same time, labour cost per worker in manufacturing rose from US$6 261 to US$8 475, while value added per worker in manufacturing rose from US$12 795 to US$16 612. The increase in labour cost was therefore 35,4 per cent, while the increase in value added per worker was only 29,8 per cent. These data clearly show that firms are economising on the employment of workers.

In the present environment, any attempt at a serious projection for employment in the formal sector would be so bounded by qualifications as to be almost meaningless. The roles of wage costs, technology, and suitably qualified workers all need to be taken into account. However, if the present apparent turnaround in employment portrays the start of a new trend, rates of growth in excess of 3 per cent a year would be required to continue this upward trend. If a meaningful dent in the unemployment rate were to be made, growth would need to be doubled to 6 per cent. In the search for such growth, the constraints identified earlier have to be borne in mind. These include uncertainty, the labour market itself, technology and skills, the trade regime, and growth in the rest of the world. At this point, the likelihood of a confluence of these determinants is unlikely.

The distribution of income in South Africa has been characterised as being among the most unequal in the world. As a point of reference, table 9 shows the Gini coefficients and the percentage share of income for a selected number of countries.

Table 9: Gini coefficients and income distribution for selected countries

Country	Survey year	Gini index	Lowest quintile (% income)	Highest quintile (% income)
Japan	1993	24,9	10,6	35,7
South Africa	1993–4	59,3	2,9	64,8
Brazil	1997	59,1	2,6	63,0
Korea	1993	31,6	7,5	39,3
Nigeria	1996–7	50,6	4,4	55,7
Sierra Leone	1989	62,9	1,1	63,4
Swaziland	1994	60,9	2,7	64,4
Sweden	1992	25,0	9,6	34,5
India	1997	37,8	8,1	46,1

Source: World Development Indicators, 2001.

Table 9 shows that in South Africa income is more unequally distributed than even in Brazil, but not as unequally distributed as in Sierra Leone or Swaziland. India is an interesting case, with much lower levels of inequality, but not as low as industrialised countries like Sweden and Japan. Korea, which has now become a member of the Organisation for Economic Co-operation and Development (OECD), has been able to achieve much higher levels of equality through its stunning growth performance.

The link between growth and income distribution is a contested one. There was the view that countries before entering their industrialisation phase were more egalitarian than countries that commenced industrialisation, so that when countries started to industrialise, inequality would initially rise. After several years of industrialisation, it was hypothesised, inequality would decline. This relationship was termed the Kuznets curve which hypothesised an inverted U-shaped relationship between growth and inequality. However, recent evidence now suggests that inequality steadily declines with industrialisation and growth.[27] In other words there isn't a trade-off between growth and equality as economies develop.

Although we do not have updated figures on income distribution today, we can hypothesise that in South Africa the situation probably hasn't changed a great deal since 1994, particularly in the face of slow growth, declining employment in the formal sector, and rising levels of unemployment and crime.

Where does this leave South Africa? The cross-country growth literature shows categorically that polarised societies tend to grow more slowly.[28] Inequality is one form of polarisation, ethnic diversity is another. South Africa has both. Thus, if, as the new evidence suggests, growth leads to lower levels of inequality, then South Africa somehow needs to find a way to kick-start the economy despite the barriers that inequality and ethnic diversity present.

The question that then arises is whether strong redistributive policies are really an option. The discussion on the basic income grant (BIG) demonstrates the budget constraints under which the treasury has to operate. However, as the present South African government has decided to foster private enterprise, these sorts of policies would indeed be detrimental to private investment, and hence growth. Increasing taxes to finance such programmes would be detrimental to growth in the long run, and impact in particular on investment in the private sector.

Black economic empowerment (BEE) policies do not address the problems of inequality, but those of representivity. Besides raising the uncertainty level for the private sector, BEE raises the spectre of interracial power politics to the detriment of growth. The recent Brenthurst Initiative suggestion to fund black empowerment with tax cuts for firms undertaking empowerment is an attempt on the part of white business to obtain an advantage from the pressure they face to transfer assets to blacks.

Poverty measures are indirectly linked to inequality. Based on data collected in 1993, the World Bank provides the following synopsis of South African poverty:

> 11.5 percent of the population is living at below US$1.0 a day while 35.8 percent of the population is living at below $2.0 a day. The respective poverty gaps are 1.8 percent at one dollar a day and 13.4 percent at two dollars a day.

The poverty gap is the mean shortfall from the poverty line with the non-poor counted as having a zero shortfall. This mean shortfall is then calculated as a percentage of the poverty line, and gives you an idea of the depth of poverty as well as its incidence. Comparable figures for Zambia in 1998 are 63,7 per cent below a dollar a day and a poverty gap of 32,7 per cent; Korea in 1993 had less than 2 per cent of the population living at less than a dollar a day with a poverty gap of less than 0,5 per cent. These statistics show that poverty in South Africa is not as pervasive as Zambia. However, South Africa compares unfavourably with Korea's higher per capita and more evenly distributed income. Using data for 65 developing countries, Easterly has analysed the impact of growth on the people below the one dollar a day poverty line. His results are summarised in the following table:

Table 10: Changes in average income and poverty rate

	Percentage change in average incomes per year	Percentage change in poverty rate per year
Strong contraction	-9,8	23,9
Moderate contraction	-1,9	1,5
Moderate expansion	1,6	-0,6
Strong expansion	8,2	-6,1

Source: Easterly, The elusive quest for growth, 3.

Those economies that expanded rapidly, at a rate of 8,2 per cent, were able to reduce poverty by over 6 per cent. However, growth can fluctuate, and gains can be reversed. Indonesia was among the fast-growing economies that experienced such rapid reductions in poverty, but with the East Asian crisis a major portion of the gains was lost and poverty increased once again.

On the other hand, strongly contracting economies experienced a massive 23,9 per cent increase in poverty. Among these were the transition economies of Eastern Europe, as well as Zambia, Mali, and Côte d'Ivoire.

In South Africa, from 1993 to 1999, average per capita incomes in dollar terms increased only by 0,2 per cent a year. With such a moderate increase in per capita income it is probable, given Easterly's findings, that poverty has increased marginally since 1993.

The best antidote for poverty is economic growth. However, in order to make a meaningful dent in poverty levels, such as a 6 per cent decline a year, the required rate of economic growth – given that population is probably growing at 2 per cent a year – is over 10 per cent a year. This is much to ask of an economy that has been experiencing low levels of economic growth, albeit rising to a projected 3 per cent recently.

Economic growth and macroeconomic policy

No chapter on growth would be complete without mention of the role of macroeconomic policy. In the main, macroeconomic policy under the democratic government has been both stable and consistent.[29] The budget deficit has been cut from over 5 per cent of GDP in 1995 to 2,4 per cent in 1999, to just under 2 per cent in 2002. These cuts have been achieved by more efficient tax collections from a growing tax base, while attempting to address the social needs of the country. There is a sense that mainstream thinking is shifting towards a call for both more efficient government spending, and closer monitoring of spending, combined with a more Keynesian approach to increasing spending itself. Joseph Stiglitz's recent provocative book provides[30] a persuasive discourse on the benefits of following such an approach.

Monetary policy has, in a sense, been taken out of the hands of the Reserve Bank, with the adoption of inflation targets set by the treasury. Inflation targeting took a knock with the rapid depreciation in the exchange rate in November/December 2001. However, since then the exchange rate has appreciated, and inflation is coming down rapidly to within the target range.

Both fiscal and monetary policy are designed to introduce certainty into the market and to ensure that the government sector does not crowd out private investment. In this sense macroeconomic policy is pro-growth in the long run. The theme running through the growth literature is that uncontrolled macroeconomic policies have been bad for growth. High budget deficits, combined with high inflation in order to finance these deficits, have been the death knell of growth in the long run.

Macroeconomic policy has to take account of the fact that the real exchange rate is known to have very real effects on the economy. In particular, a necessary requirement for successful trade liberalisation is the reinforcement of the signals that reallocate resources to where they can be more efficiently employed. This can be done by maintaining a real depreciation of the exchange rate. The trade-weighted real effective exchange rate depreciated by 14,2 per cent from 1995 to 1999. Since then, the depreciation accelerated with the capital flight of 2001/2, and the real rate fell a further 16 per cent in the space of two years. This trend turned around with a vengeance in 2003, and by July 2004 the real trade-weighted rand had appreciated by approximately 50 per cent from the December 2001 low. Such volatility and, according to some, overvaluation of the currency is taking its toll on the competitiveness of exporters as well as import-substituting firms. It raises uncertainty as well, and may negatively affect decisions to invest in tradable goods production.

PROSPECTS FOR GROWTH

This chapter has laid the groundwork for speculating about the likely prospects for growth. A review of statements by the private sector, treasury, department of trade and industry, Reserve Bank, World Bank, and IMF, as well as modelling by Goldman Sachs, suggests that it is very difficult to find a long-term forecast for growth in South Africa. Even the Goldman Sachs model is not a forecast but an exercise in scenario building.

Goldman Sachs suggests three scenarios:

- the pessimistic scenario, which models the impact of a 3 per cent rate of growth on the level of unemployment, showing that unemployment would not change from its present level of 29 per cent for the economy;
- the middle scenario of 5 per cent growth, which results in a halving of the level of unemployment; and
- the optimistic scenario, which grows the economy at greater than 6 per cent, resulting in unemployment falling to 11 per cent by 2014.

Goldman Sachs is of the opinion that the 5 per cent scenario is achievable.

The World Bank, on the other hand, is more conservative. Jeffrey Lewis laments the absence of growth sufficient to increase employment and reduce unemployment significantly. While he recognises that booms and busts affect growth in the short run, he is pessimistic about the underlying long-run growth trend. 'Why,' he asks, 'does South African growth cycle between 0–4 per cent, rather than 2–6 per cent?'[31]

Lewis attempts to answer his question by focusing specifically on the supply of the factors of production, and the efficiency with which these factors are used. Through the use of a computable general equilibrium model, several experiments are run. With the injection of US$2 billion into the economy, the model shows that growth can be increased up to 5 per cent, which then drops off as skilled labour constrains growth, reducing it to just over 4 per cent at the end of the ten-year scenario. Lewis concludes that improved labour market flexibility will not do enough for growth, and suggests that the skills base in South Africa needs to be enlarged as a matter of urgency. This may also explain why the GEAR projection, of 4,2 per cent a year over the latter part of the 1990s, culminating in 6 per cent by the year 2002, never materialised.

After all the evidence is reviewed, the prognosis is not good. If investment remains low, education inappropriate and inadequate, and health poor, and groups continue to contest the ownership of assets, the economy will bump along at an average of 3 per cent a year for the foreseeable future. The modelling of the World Bank is persuasive. By focusing on the constraints to growth in the form of skills, the bank shows that the best the economy could achieve is a maximum of 5 per cent a year, stimulated by a large increase in foreign direct investment (FDI). It is unlikely that FDI will increase to this degree, although increase in infrastructure investment of a similar order may be possible. But, given the skills constraint, South Africa would still only achieve a maximum growth rate of 5 per cent.

One possible saviour on the horizon is the outcome of certain trade deals in the offing. The on-off Doha negotiations, the free trade agreement (FTA) and the AGOA with the United States, and possible trade deals with Brazil, India, and China will open up the economy. We have seen the benefits of openness in a number of countries around the world. What will be of critical importance is the ability to absorb the new ideas that will flow from greater integration into the world economy. Otherwise what we will see is a once-off shot in the arm to the growth rate, without a movement on to a higher long-run growth path. We have also seen that to make a difference to poverty and improve the distribution of income, it is imperative that rates of growth rise to levels seen in East Asia.

One other positive impact on growth prospects could be any changes in the terms of trade. Increases in the prices of South African exports would translate into windfall gains that could be used to improve the incentives to grow. Once again the difficulties of predicting such changes are considerable.

CONCLUSION

This chapter has shown that the prospects for growth in South Africa over the next ten to 15 years are not particularly good. Present growth does not address the problem of poverty, nor redress the inequalities present in society. The challenge is therefore to find the formula that would lead to a take-off in growth.

The right incentives to growth need to be created; in particular, those given to the private sector. It is important that the private sector doesn't perceive that irrespective of what is done, the gains will be appropriated by government in order to finance white elephants or benefit certain small groups. Among these groups are the elite employed, protected by labour legislation more likely to be seen in the high-income countries of Europe. Whether it is politically feasible for government to revisit this legislation should be seriously considered.

The role of government is to provide infrastructure in the form of schools, roads, telephone and electricity services, and health clinics, as well as appropriate health care to deal with the epidemic of AIDS. More importantly, government should give targeted assistance to the poor, rather than schemes of general application such as the BIG, which are not affordable in a country at this level of income. However, in giving such assistance, care must be taken not to penalise the poor when income rises. South Africa should learn from the experience in developed countries with perverse incentives in their social welfare programmes.

Finally, government needs to revisit secondary and tertiary education policy with a view to ensuring that appropriate skills are developed. The skills in mathematics, the sciences, and engineering are critical in a society wishing to be part of the global world. The ability to absorb, adapt, and develop new technology is a necessary condition in ensuring that the economy will grow at the required rates. The lifting of the economy out of the existing low-level equilibrium trap, with its lack of spillovers and benefits essential for development, remains a top priority for South African policy makers.

ENDNOTES

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CHAPTER 8

'GOING FOR GROWTH': THE ANC GOVERNMENT'S ECONOMIC POLICIES

Greta Steyn

The ANC government's economic policies have changed over time in response to changing circumstances. What they have not been is entirely coherent. This has been a reflection of three interconnected political realities. The first is the tendency of the ANC as a movement to paper over the diversity of views and interests it represents by means of idealistic policy visions that fail to engage with difficult realities on the ground. The second is the ongoing development of particular, sometimes contradictory, organisational cultures and visions within the separate departments of the state. The third is the extent to which South Africa is forced to accommodate the prevailing structures, orthodoxies, and occasional shocks of the international economy. All these factors have produced regular policy changes and have led to a fairly fractured and sometimes incoherent policy package. The government has shown determination and been fairly successful in dealing with the international economy. But it has mostly failed to put in place a national, growth-promoting strategy.

The growth, employment, and redestribution policy (GEAR) was an important step in the evolution of the government's policy approach, but it was not a sudden jump to the right. Instead it was a broad, sometimes vague, formalisation of the dominant economic approach within the ANC. It was formulated reactively, in response to a crisis in the foreign exchange market, which threatened to erode what few economic gains had been made since the advent of democracy. From the middle of February 1996, speculative attacks on the rand led to a significant real depreciation. While the fall in the value of the rand was partly a reflection of broader economic circumstances, it was also driven by uncertainty among currency traders.[1] The markets were, in fact, signalling the need for clarity on economic policy, and the government responded by producing GEAR. An implicit aim of GEAR was, therefore, to calm the financial markets with a view to heading off a financial crisis of the magnitude suffered by Mexico in 1995.

In addition, however, the strategy envisaged placing South Africa on a higher growth path by transforming the economy into a competitive, outward-oriented one.[2] This would be done through a multi-level approach, including fiscal, monetary, labour market, industrial, and trade policies.

FISCAL POLICIES

GEAR targeted a reduction in the fiscal deficit to 4 per cent of GDP in 1997, 3,5 per cent of GDP in 1998, and 3 per cent of GDP in 1999 and 2000. Government consumption as a percentage of GDP was targeted to decline to 18,1 per cent in 2000 from almost 20 per cent in 1996. The ratio of tax to GDP was projected to be maintained at 25 per cent. The strategy also envisaged a substantial acceleration in government investment spending and 'speeding up the restructuring of state assets to optimise investment resources'.

MONETARY POLICY, THE EXCHANGE RATE AND EXCHANGE CONTROLS

Monetary policy would aim to maintain interest rates at positive levels, though low enough to boost economic growth. The GEAR strategy aimed to bring about conditions conducive to lower real interest rates. Measures such as cuts in import tariffs and the reduction in the fiscal deficit, as well as the assumption of moderate wage increases, would keep a lid on inflation and thus foster lower real interest rates. It was assumed that GEAR would attract long-term foreign direct investment (FDI) flows, making the capital account of the balance of payments (BoP) less dependent on short-term capital inflows seeking high yields. In addition, the commitment to a stable exchange rate and higher growth were assumed to lead to a lower risk premium for South Africa and therefore a lower interest rate.

Exchange rate policy was geared towards the maintenance of a stable real effective exchange rate. The objective of a stable external value in the rand could only be achieved in the long run if domestic inflation were kept low. Exchange controls distort the financial markets, and GEAR committed government to a 'prudent' phasing out of controls. In terms of the package, exchange control limits, such as those that applied to institutional investors, were adjusted.

INDUSTRIAL AND TRADE POLICY

GEAR viewed the exchange rate depreciation as a window of opportunity for South Africa's manufactured exports. However, the benefits of the depreciation would dissipate if it gave rise to inflation. Partly with this in mind, GEAR proposed a significant acceleration of the tariff reductions to which South Africa was committed in terms of the World Trade Organisation (WTO) agreements. The approach was to compensate for the exchange rate depreciation by lowering prices for industrial inputs, with the idea of minimising the negative effects of the exchange rate depreciation on consumer and input prices, and maximising the positive effects of the exchange rate on industrial production.

The GEAR policy package also included industrial incentives. All new investments in manufacturing would be entitled to an accelerated depreciation scheme. A tax holiday for investments in targeted regions was also introduced.

LABOUR MARKET POLICY AND EMPLOYMENT CREATION

GEAR envisaged an 'appropriately structured flexibility within the collective bargaining system'. Government would also promote productivity improvements and bolster the development of skills across the full spectrum of the workforce. 'Regulated flexibility' entailed the regulation of the labour market in a way that allowed for flexible collective bargaining structures and variable application of employment standards. Industrial agreements that reached across diverse firms, sectors, or regions should be sufficiently flexible to avoid job losses, and should be extended to non-parties only when this (the avoidance of job losses) could be reasonably assured. The minister's discretion over extension of agreements should be broadened to permit the minister to take labour market considerations into account. Variations on norms set through collective bargaining must be an integral aspect of the system of 'regulated flexibility'.

Labour market reform was one of the key factors driving employment growth as envisaged by GEAR. About 30 per cent of the increased employment, and more than half of the new formal private sector jobs, would have to arise from institutional reforms in the labour market, employment-enhancing policy shifts, and private sector wage moderation.[3]

Growth itself would account for about one third of increased job creation. Labour demand would become more responsive to output growth because industrial policy would favour labour-intensive components of industry. Government programmes could add a quarter of the new jobs, mainly through accelerated labour-based infrastructural development and maintenance of public works.

THE FAILURES OF GEAR

GEAR's targets for growth, employment and redistribution were all missed. By the end of 2000, it was clear that the strategy had failed to place the South African economy on to a higher growth path. GEAR had made critical assumptions on the labour market and industrial policy, but there was no clarity in the GEAR document how these various policy elements were to be implemented and reconciled. In fact, most of them failed to materialise.

It is a major omission that neither GEAR nor other policy statements outlined how industrial policy would favour labour-intensity. In fact, there is evidence that the department of trade and industry (DTI) never favoured such a policy stance and that its minister at the time, Alec Erwin, favoured big, capital-intensive projects such as those associated with the Coega port and the industrial development zone (IDZ) around it.

Another crucial assumption in GEAR on the labour market was wage determination. It was assumed that wage and salary increases could not exceed average productivity growth if the package was to succeed. But it was unrealistic to expect that trade unions would bargain for anything less than wage increases that beat inflation by an 'acceptable' margin. Developments in the labour market did little either to hold down wages or to encourage job growth. Again the GEAR document is vague and contradictory in this regard.

While the document favoured a better kind of 'flexibility', it never actually committed the government to greater flexibility in the labour market. Similarly, although the document spoke of a speeding up of restructuring of state assets, it failed to translate this into concrete privatisation targets.

Similarly, the way in which the public sector would manage to add a quarter of the new jobs envisaged in GEAR, while at the same time slashing the deficit, was not spelled out. The fact that GEAR accorded an important role to the public sector in job creation demonstrates that it is incorrect to characterise the package as 'neo-liberal'. True, GEAR's assumption on job growh was incorrect in practice. But once the deficit reduction had been achieved, government was in a position to work on labour-based public works programmes. GEAR's mistake was to assume that government would be in that position before the deficit reduction programme had been completed. At the time, government was effectively unable to implement labour-intensive public works or infrastructure spending programmes on a scale that would make a difference to job growth. Instead, the deficit reduction programme led to cutbacks in capital expenditure – the very opposite of what was assumed for the GEAR job creation targets to be reached.

One has to question the wisdom of adopting a labour-intensive industrial policy, given that the South African economy was tearing down the barriers built up around it during decades of apartheid. South African business, accustomed to being protected, was suddenly exposed to foreign competition and had to become leaner and meaner. Job losses were inevitable as trade liberalisation continued apace. The only way in which industrial policy could have created jobs would have been if small business development was successful – which it was not, as the DTI has met with limited success in stimulating small business.

GEAR had to be sold to the financial markets as 'Thatcherite', as the ANC government needed to send a strong signal that it was not a populist, socialist party espousing old-style, statist development policies. Hence it was also important for Trevor Manuel, the minister of finance, to declare the package 'not negotiable' – the financial markets needed to see that the left's influence had diminished. But a 'to-the-letter' assessment of GEAR shows that it was far from Thatcherite – it failed to even mention the word privatisation, preferring the euphemism asset restructuring, and failed to provide privatisation targets. It stopped short of committing government to greater flexibility in the labour market. But the failure of the longer-term policies led to a re-interpretation by the government of what GEAR had been all about, which then created the context for new, post-GEAR policy approaches. After 2000, GEAR was repeatedly presented as a macroeconomic stabilisation strategy, the main aim of which had been to avert a 'fiscal debt trap' while at the same time reorganising government spending.

PRESIDENT THABO MBEKI'S VISION

By early 2001, it was obvious even to its staunchest defenders that while the original GEAR package may have been necessary, alone it was not sufficient. President Thabo Mbeki flagged the subsequent shift in policy emphasis in his state of the nation address in February 2001. The speech sketched a wide range of policies which Mbeki now described as 'microeconomic interventions'. Before outlining his programme of action, he claimed that GEAR had served its purpose, saying: 'There is a general consensus that we have established the necessary macroeconomic balance and stability.'[4]

Key themes of the microeconomic reform plan as envisaged by Mbeki were the need to lower input costs throughout the economy, as well as targeting sectors of the economy that require special attention because of their potential for growth and jobs. Attention would be given, he said, to improving conditions 'that underpin and constitute the enabling framework for economic efficiency and competitiveness. I refer here to human resource development, technology, the economic infrastructure and access to capital'. Investment in economic infrastructure would be prioritised to support high-growth areas, as well as the integrated rural development strategy and the urban renewal programme. Immigration laws would also be reviewed urgently and there would even be 'consultations' on reforming the labour market, as well as an investigation into the feasibility of reducing the cost of labour without reducing workers' wages.

What had essentially happened was that the memory of those elements of GEAR that were supposed to be growth-inducing was suppressed. GEAR was thus presented as a successful macroeconomic stabilisation strategy, the success of which would allow new, more adventurous macroeconomic strategies and new growth-inducing strategies that were now, mostly incongruously, lumped together as mircoeconomic policies. GEAR's problem, in an attempt to accommodate the interests of different stakeholders and departments, was that the growth policies were vague and or unrealistic. The solution has been to allow departments like the DTI to formulate their own strategies. Needless to say, this has not helped to increase interactions and reduce contradictions within the overall economic plan.

THE POST-GEAR 'MICROECONOMIC' STRATEGIES

In May 2002, the DTI issued a discussion paper, 'A guide to the microeconomic reform strategy'. It defines macroeconomic issues as monetary and fiscal policy, while microeconomic issues refer to actions designed to deal with blockages to growth. In the post-GEAR phase of writing economic policy documents, the notion that macroeconomic balance exists and that something more is needed is a recurrent theme. That 'something more' is referred to as microeconomic interventions, but, as we shall see, it is not always clear what is meant by the concept. What is clear is that the vision that underpins this strategy emphasises high-technology, manufacturing-led development which is spread over different spatial areas, and in which participants in the economy require training to build up the requisite knowledge base.

The point of departure is that the developed economy in South Africa suffers from a lack of cost-competitiveness in relation to the global economy, while the underdeveloped part of the economy suffers from backlogs and under-investment in social and productive capital. Cost-competitiveness is adversely affected because of, among other things, the tariffs charged by certain state-owned enterprises (SOEs). The labour market also presents problems because of a mismatch of labour demand and supply, the low levels of education and skills of the workforce, and the need for ongoing review of labour market regulation. Moreover, technology is not widely dispersed enough – per capita expenditure on information technology is low, and investment in research and development (R&D) is inadequate.

The strategy proposes that government introduces a number of measures to raise investment in R&D (including an increase in funding for strategic areas such as biotechnology), to co-ordinate fragmented policies, and to strengthen research in the private sector. Further steps will be taken to enhance finance available for small business development and black economic empowerment (BEE) through the co-ordination and subsequent integration of existing financing vehicles, such as Khula and the National Empowerment Fund. Other financial institutions will also be promoted, and there will be legislation aimed at disclosure and community reinvestment in the financial sector.

In addition, some critical infrastructure projects are underway, such as the Coega port and IDZ, as well as IDZs in Richards Bay and East London. There are also regional spatial development initiatives (SDIs) such as the Lebombo SDI. In the same vein, there are industrial hubs, such as for steel, aluminium, and information and communication technology (ICT). The metropolitan investment project Blue IQ in Gauteng also falls into this category.

The state will focus attention on sectors with potential for increased outputs, exports, and employment creation. These are: exports (clothing and textiles, auto components and transport, agro-processing, mining, metals and minerals beneficiation, chemicals and biotech, crafts, and ICT), tourism, agriculture, and cultural products.[5]

These are all expressions of the DTI's formulation of an integrated manufacturing strategy (IMS), which envisages a 'knowledge-based' economy in which ICT is at the core of the functioning of the economy. There is emphasis on a value-chain approach, which implies that South African business should seek to find competitive positions within an overall value chain.

There are three central elements to the DTI's approach which support the IMS. First, the DTI champions competitiveness through its leadership role in the economic, investment, and employment cluster of government departments. Second, competitiveness will be promoted in specific sectors and value chains. Based on value-chain analysis and an assessment of institutional capacity, the DTI has chosen key areas for 'targeted interventions' to be designed and implemented in close collaboration with labour and business. These sectors are: clothing and textiles, agro-processing, metals and minerals, tourism, automotive and transport, crafts, chemical and biotechnology, and knowledge-intensive services.

Together, ways will be sought to improve on competitiveness in those sectors. The DTI aims to work with business and labour in certain sectors to remove obstacles to competitiveness within a value chain, including those issues that do not fall under the DTI, but which are part of the microeconomic reform strategy – such as logistics and infrastructure. Partnerships driven by the DTI will engage in data collection and analysis, strategy development, and implementation, and will identify specific opportunities and constraints. Targets will be set for the performance of sectors. The DTI, however, does not 'envision that government will provide massive injections of money to sectors or enterprises ... Interventions that do not encourage enterprises or sectors in the direction of knowledge-intensive, value-adding growth with equity will also not be considered'.[6]

The DTI will also provide widely accessible, broad-based products and services that affect the efficiency of all business. The DTI will provide company and patent registration more efficiently. It will also 'quickly' address the continued lack of access to government support by historically disadvantaged individuals

The broad-based programmes followed by the DTI are: competitive market access, which includes bilateral and multilateral trade negotiations; establishing a fair and efficient business regulatory environment, including corporate law reform and improved international trade administration; investment promotion; access to finance, which will be improved through promoting closer linkages between existing development finance institutions; and policy coherence in government through the DTI's pursuit of policy co-ordination.

The third section of the strategy document concerns the objective of finding 'a common vision' among economic stakeholders. The hope is expressed that a framework will be developed within which each of the constituencies will be called upon to make a contribution. Given the problems experienced during the GEAR era, this might be overly optimistic.

A major tenet of the microeconomic reform strategy is to lower input costs across the economy, with the focus on three key sectors: telecommunications, energy, and transport. But the policy approach to these three sectors is contradictory. The microeconomic reform strategy talks of a process of 'managed liberalisation' in the three sectors, aimed at introducing competition, increasing efficiencies, and lowering costs. The implication is that the introduction of competition is the key to reaching the objective of lowering input costs. However, the document also states that the three sectors are dominated by parastatals which are 'firmly within the ambit of the state's control'. The mandates of the parastatals would be reviewed to ensure that they deliver an efficient service, rather than to seek profit for its own sake.

If the plan is for the state to keep prices of telecommunications, energy, and transport artificially low, then the objective of introducing competition cannot be attained. The two aims – actively using the power of state ownership to influence prices and 'managed liberalisation' – are not entirely compatible. Another omission is detail on how the targeted sectors will be benefited. The documents state explicitly that there will be no major cost to the fiscus, so there does not appear to be much other than marketing and similar types of support, although the automotive industry is an important exception.

The IMS is based on a 'knowledge economy' which requires a high level of skill, but South Africa does not have immigration laws that make it easy to attract the necessary skills. Moreover, the recent policy documents do not spell out how the strategy will lead to job creation. It says that, in the long term, economic restructuring and the successful implementation of the reform strategy will lead to job creation. But there is no discussion of the high levels of skills needed, and the fact that South Africa's pool of unemployed labour is mostly unskilled. Because the new growth strategy emanates mostly from within the DTI, it does not articulate adequately with the complex and contradictory interests that constitute the ANC government.

POST-GEAR MACROECONOMIC POLICIES

South Africa's constitution states that the primary objective of monetary policy is to protect the value of the currency in order to obtain balanced and sustainable economic growth. It requires the achievement of financial stability – that is, price stability – as well as stable conditions in the financial sector as a whole.[7] South Africa adopted an inflation-targeting framework for monetary policy in 2000. Inflation targeting is increasingly being adopted in emerging markets, after gaining prominence in the United Kingdom, Canada, Australia, and New Zealand. In February 2000, Trevor Manuel announced that the government had decided to set an inflation target range of 3 per cent to 6 per cent as a monthly average for the year 2002. The announcement brought to an end the so-called 'eclectic' approach to monetary policy followed by the former governor of the Reserve Bank, Chris Stals, who emphasised intermediate objectives such as money supply growth and the exchange rate. The target remained at 6 per cent for the following two years.

When Tito Mboweni took over as governor of the Reserve Bank in August 1999, he made it clear that whereas Stals had implicitly targeted the exchange rate, he would focus solely on domestic inflation. The push for an inflation-targeting framework did not, however, come from Mboweni; it came from the treasury. Mboweni sees that the inflation-targeting framework is beneficial because it provides clarity and accountability to the Reserve Bank's policies, and anchors inflationary expectation, especially in the realm of price and wage setting.[8] The target is not pursued rigidly, as a 'rule', and allowances are made for serious supply shocks and the application of discretion to avoid costly losses in terms of output and jobs.

The first year for which the 3 to 6 per cent target was set – 2002 – saw it exceeded by a significant margin. The targeted measure of inflation – consumer inflation excluding the effect of mortgage interest rates – averaged 9,3 per cent in 2002. Another miss was projected for 2003, but in 2004 inflation dropped back comfortably within the target range.

Trevor Manuel outlined the shift in fiscal policy in his budget speech in 2001. He said the 1996 strategy had been designed to achieve stability, fiscal reprioritisation, and consolidation to create the basis for sustainable growth and development, and to ensure that a greater share of resources went to key priority areas such as education, health, and social welfare targeted to the poor.

Manuel reflected on how things would have been if GEAR had not been implemented. Debt service costs had risen during the 1990s from 15 per cent to more than 20 per cent of the budget in 1998/9, steadily eroding the resources available for delivery of services. If the trend had continued, interest on debt would have been R10 billion more than spending on education, and rising. But the trend had been reversed, and in the 2001/2 fiscal year, government would spend R10 billion more on education than on debt. By 2003/4, spending on education exceeded debt service costs by R15 billion. Interest on debt in three years' time would have retreated to 16,4 per cent of consolidated spending. Spending had been prudent, with the emphasis firmly on reprioritisation and better quality of expenditure. A point had been reached at which government was able to reinforce public service delivery without threatening fiscal sustainability.

Tax relief for individuals has been significant. Since 2000, the minimum tax threshhold has been increased by over 50 per cent for individuals below the age of 65 and by 40 per cent for those over 65. As a result, more than a million people who would otherwise have had to pay some tax are paying no income tax at all.

Within this macroeconomic policy framework there are few contradictions, although one important shortcoming is the difficulties government spending agencies have faced in ensuring delivery of spending promises made in budgets. There is, however, one noteworthy contradiction when it comes to monetary policy, which sets financial stability as one of its objectives. The extreme volatility of the rand exchange rate has created an unstable business environment and is not compatible with the objective of financial stability. Mboweni started his tenure as governor by committing himself to financial stability, but has become silent on this issue, reflecting the central bank's powerlessness to deliver financial stability.

OTHER POLICY ISSUES THAT COULD POSE THREATS TO GROWTH

Black economic empowerment and affirmative action policies

Empowerment is essentially about redistribution – not just of wealth, but also of income and opportunity. When the ANC came to power in 1994, redistribution was high on the agenda. Taken at its extreme, redistribution can destroy an economy's growth prospects. The fruits of past growth may be divided up more fairly, but in taking away wealth from the generators of wealth, the potential to create new riches is harmed. But the potential for damage to the country's economic growth prospects does not mean that redistribution should fall away as a goal. If redistribution, or empowerment, is not achieved, the resulting social conflict might be so severe that South Africa's growth prospects would be derailed anyway. Moreover, empowerment, if handled correctly, can present the economy with new growth opportunities.

South Africa remains one of the most unequal societies in the world. In 2001, less than 17 per cent of the population received as much as 72 per cent of the country's income, while about half the population received only 3 per cent of national income.[9] There can be no doubt that South Africa must strive for a more just division of wealth and income. The challenge is, of course, to avoid the extremes, and to find a way in which the products of growth can be divided more fairly without harming the potential to add to the country's wealth. An essential part of maintaining the economy's growth potential is for the existing holders of wealth not to give away ownership, but to sell it. However, historically disadvantaged people lack the capital to buy ownership, which is the essential dilemma of South Africa's empowerment drive.

The first wave of black economic empowerment (BEE) started in 1993, when Sanlam sold 10 per cent of its stake in Metropolitan Life to a black-owned consortium. A spate of similar transactions followed in which listed companies did deals to bring on board black shareholders. The transfer of ownership was not free – equity stakes were not given away to black shareholders. They had to buy them, mostly by using borrowed money. 'Special purpose vehicles' (SPVs) were used to compensate for the lack of capital in the hands of prospective owners. The success of the SPVs hinged on a continued bull market on the stock exchange. But the market failed to play ball, and new black owners were left highly indebted when markets experienced considerable volatility globally in 1997 and stock markets crashed in 1998.[10] The potential for share prices to rise was also harmed, because the new BEE enterprises were similar to investment funds and conglomerate corporate structures, which are not well liked on modern equity markets.

The existing wave of empowerment presents many difficulties, but may have produced some advantages. '(These transactions) provided empowerment with a high profile and brought forth a new generation of business leaders,' the DTI says.[11] Yet, as a redistribution exercise, this wave did not succeed. Its success was in creating elements of a black capitalist class, but the redistribution imperative remains. To deal with the problem, the DTI now defines BEE as: 'an integrated and coherent socioeconomic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the numbers of black people that manage, own and control the country's economy, as well as significant decreases in income inequalities.'[12]

The need to extend empowerment beyond a small and already wealthy elite once again highlights the central dilemma of the exercise: the lack of access to finance to pay for an equity stake. The demand for finance for BEE is one of the facets of the exercise which, if not handled with the utmost care, could threaten the South African economy's growth prospects by destabilising the financial sector. Another factor with potentially negative consequences for growth is that a large chunk of the country's financial resources is being channelled to acquisitions of existing business rather than into new entrepreneurial projects.

However, these costs must be balanced against the positive aspects of channelling finance towards infrastructure, as envisaged in the financial services empowerment charter. Similarly, if banks provide greater access to financial services to unbanked people, more savings will be mobilised for growth and development. Nevertheless, Business SA raised the problem of the demand for finance for BEE transactions in its initial submission to Nedlac for the growth and development summit in 2003. The business constituency proposed that the overall capacity of the financial sector to finance BEE be determined. It says: 'The quantum of such capacity should be such that it does not inhibit the financial sector from continuing on a sustainable growth path'.[13] The business submission says government funds and donor funding should be used to the maximum. Government funds for BEE have been placed in numerous institutions, and have not necessarily been used optimally.

The attainment of BEE in the banking sector could also have posed a threat to economic growth, if handled badly. Sound banking regulation requires that banks are not capitalised extensively with borrowed funds. However, the financial services charter has borne this problem in mind by setting a direct equity ownership level of 10 per cent, and not 25 per cent, for empowerment shareholders.

The other way in which BEE could pose a threat to economic growth is through fostering the impression that the exercise is 'nationalisation by stealth'. Such a perception harms foreign and local business confidence. This became clear after the leaking of a draft empowerment charter for the mining industry in mid-2002. The leaking of the draft document, which focused on setting strict equity ownership targets of 51 per cent of new mines and 30 per cent of existing mines in ten years, slashed billions of rands off the market capitalisation of South Africa's mining companies. Foreign investors, who are heavily exposed to South Africa's resources companies, saw the move to compel mining companies to facilitate the transfer of a quarter of their equity into black hands as a desire to 'nationalise' the industry.

The effect of the draft document on the financial markets came as a shock to government and triggered a rethink on empowerment.[14] As a result of the shock, there is now less emphasis on equity ownership as the sole criterion of empowerment. Government has now adopted a 'balanced scorecard approach' in which three core elements are used to measure BEE: direct empowerment through ownership and control of enterprises and assets, human resource development and employment equity, and indirect empowerment through preferential procurement and enterprise development. The BEE strategy document gives a weighting of 20 per cent to equity ownership.

Despite the rethink, there is still suspicion among foreign investors over BEE. The mining companies' share prices trade at a discount to their international peers, reflecting the fact that foreign investors view empowerment as an additional tax to be paid in South Africa. Other companies' share prices may also be affected negatively. Many empowerment deals result in a dilution of ownership, which has a depressing effect on share prices, and hence on a company's ability to raise capital on the stock exchange.

The attainment of employment equity targets may also be viewed as an additional cost, as a business may not simply appoint the best person for the job. If a previously disadvantaged person with the potential to be the best is appointed, a company needs to invest in ensuring that he/she is able to do the job.

President Mbeki has tried to sidestep these threats by focusing on a hopeful scenario in which empowerment and growth are intertwined. In his state of the nation address in 2002 he said: 'The government is firmly of the view that economic growth, development and black economic empowerment are complementary and related processes. The empowerment we speak of is an inclusive process and not an exclusive one. No economy can meet its potential if any part of its citizens is not fully integrated into all aspects of that economy. Equally it follows that an economy that is not growing cannot integrate all its citizens into that economy in a meaningful way.'

The management of the state's assets

There are a number of reasons why emerging-market governments decide to privatise state assets and liberalise markets. One is that the private sector is more adept at managing business than government is, which results in a more efficient allocation of resources. Further, the introduction of competition should result in better outcomes for consumers on prices and quality, and state revenue will be boosted when assets are privatised. Finally, foreign direct investment (FDI) could be drawn into the country.

However, against these benefits one needs to weigh certain disadvantages. In a country with extreme inequality in access to services, such as South Africa, the state could play a positive role in certain monopoly industries to ensure that service delivery is extended. Political opposition to privatisation, particularly from trade unions fearful of job losses, also needs to be taken into account. The social instability resulting from opposition from the unions may undercut the benefits of privatisation and liberalisation. Moreover, when a monopoly is privatised, consumers may not benefit, as the monopoly has significant pricing power. However, this negative may be offset by the benefits from raising revenue for the state, especially if regulation of price-setting is effective.

In South Africa, the alliance between the ANC and the trade union federation COSATU has made the political dimension particularly difficult to navigate. There are no simple solutions, which explains why GEAR failed to promise significant privatisation but promised to speed up 'asset restructuring' instead. The attitude towards privatisation continues to be characterised by ambivalence.

While government has handled the 'liberalisation' of the telecommunications market badly, it must be conceded that it has also been the victim of bad luck. Weak international markets have resulted in big investors staying away. The absence of plausible players led to a second round of bidding for the second national operator (SNO), delaying the process further. But there have been other areas in which the management of the South African public sector's assets could be faulted, particularly when it comes to transport. Decaying infrastructure, combined with rapidly expanding foreign trade, has led to serious congestion at South Africa's ports. There are plans in the pipeline for the private sector to manage the ports, but labour has already made its opposition known. Spending on infrastructure at South Africa's ports is a priority, whether it is done by a private sector partner or by government. Transnet, which owns the ports, is cash strapped, but central government could provide it with the finance needed, if there is no alternative. It makes no sense for the public sector to begin building a new port at Coega in the Eastern Cape while allowing chaotic conditions to continue at its existing port facilities.

Government's next big challenge is on power generation capacity. South Africa needs investment in new capacity, as Eskom's existing capacity will not be able to meet the country's needs in a few years' time. Government hopes that the private sector will take care of the investment in new capacity. However, market conditions suggest private investors may not be enthusiastic about investing. The policy has been to sell off 30 per cent of Eskom's power generating capacity – 10 per cent to a black empowerment shareholder, and the rest to a private sector investor which it hopes will be foreign. At Eskom's existing rates of return on capital, however, it is doubtful that foreign investors will be interested. Its rates of return would improve if energy prices were higher, which, in turn, might draw in foreign investors. So, perversely, the plan to draw in private sector players may result in higher energy prices than otherwise. Government appears to have put the plan on the backburner as the pendulum has swung away from privatisation.

Labour market policies

Endemic unemployment ranks as one of the government's top priorities. Jobs have been destroyed in the formal sector on an almost uninterrupted basis over the past decade. The formal unemployment rate, according to the 'narrow' definition of unemployment, was 28,4 per cent in March 2004, according to the Labour Force Survey published in September 2004. When the definition is broadened – that is, when discouraged work-seekers who have not tried to find a job in the four weeks prior to the survey are added – the unemployment rate is measured at 41,2 per cent. The figures are probably not very accurate as there are major discrepancies between, and serious problems within, the census returns, the labour force surveys, and the Survey of Employment and Earnings (SEE). Still, whether or not there are problems with the data, it is generally accepted that unemployment is a priority issue. As a result, the policy debate often focuses on the labour market. The question is asked whether a 'less inflexible' labour market may not be one of the key solutions to the unemployment problem.

It seems business leaders perceive 'labour market inflexibility' to be a problem. A recent Investec Bank research report says: 'Perceptions of a country's future labour dispensation (South Africa's expected to remain inflexible) are … a key determinant of both foreign and domestic fixed investment.'[15] Similarly, economist Carlos Teixeira from Goldman Sachs says in an analysis of steps needed to encourage growth: 'More should be done to remove uncertainty about rates of return on capital, to reduce the volatility of the rand, to increase labour market flexibility, and to encourage FDI and skilled labour immigration.'[16] Businesses, both foreign and local, perceive government regulation of the labour market as a cost, and it is therefore likely that they would hire more labour if there was less regulation.

One of the biggest bones of contention when it comes to arguments about the effects of wages on employment is the bargaining council system of wage setting. Analysts argue that highly centralised wage bargaining, together with the extension of wage agreements to non-union members within the same industry, in terms of the industrial council system, is a major cause of inflexibility. Critics claim that the rigidity of the collective bargaining system places a special burden on small employers, increases the number of business failures, discourages start-ups, and therefore contributes to South Africa's extremely high unemployment rate.[17] As a result of the extension of agreements to non-union members, a union premium on wages is seen as more widespread in the economy than would otherwise be the case. GEAR assumed the extension of union wage agreements to non-union members was a problem.

However, there is little empirical work on the impact of industrial councils on compensation. Butcher and Rouse, quoting Sender and Weeks, say industrial councils cover only about

10 per cent of the labour force and most of them are 'quite limited in their geographic coverage'.[18] An important question is whether extensions to industrial council agreements are binding. The agreements may not be a major source of inflexibility in the South African labour market because exemptions are not uncommon. Moreover, it is difficult to enforce the extension of agreements to non-parties.

Butcher and Rouse's study finds the wages of employed people whose unions participate in industrial council agreements are no higher than unionised employees outside of the industrial council system.[19] The finding implies that the industrial council system is not a major source of the unemployment in South Africa.

The same study, however, finds that the 'union wage premium' for Africans is 20 per cent. The benefit of this, it is argued, is to help workers support dependents who are unemployed, and to function as a kind of 'safety net' in society. But would it not be better for workers to earn lower wages, so that their unemployed dependents to get jobs? Much as that would be desirable, it is unlikely to happen. There is an as yet unresolved debate about whether lower wages coupled with lower unemployment would reduce the overall welfare of the working poor, but neither government nor the unions will make sudden major concessions on changing any of the factors that keep wages relatively high.

What is often not recognised, is that medium and large businesses may benefit from the relative inflexibility of the bargaining process because of the certainty it provides. Business obtains the power to secure labour's participation in productivity-enhancing agreements as part of multi-year settlements. As a result, the labour environment is more predictable and manageable. According to Andrew Levy, the annual average of work days lost due to strikes fell from 3,76 million from 1989–94 to 1,5 million from 1995–2002. In 2002, work days lost fell to only 945 000 from 1,25 million in 2001. The motor industry may be viewed as a beneficiary of the system, where multi-year agreements have been the norm. However, one could argue that the system is inimical to small business development, although empirical evidence is hard to come by.

An issue where concern appears to be justified is on minimum wages. The Basic Conditions of Employment Act gives the Employment Conditions Commission the power to set minimum wages for workers not otherwise covered.[20] Minimum wages have been set for domestic workers and farm workers. In the case of farm workers, it is evident that the wages have been set at too high a level. The country's biggest tomato farm, ZZ2 in Limpopo, fired more than 1 100 farm workers in 2003 because the farm claimed to be unable to afford a monthly wage of R650. Commercial farmers, represented by AgriSA, have taken their grievances on the issue to president Thabo Mbeki.[21]

HIV/AIDS policies

According to the Bureau for Economic Research (BER), the macroeconomic impact of HIV/AIDS results firstly from the demographics – the decline in the population and labour force – and secondly from the costs associated with combating the disease.[22] In its macroeconomic impact study, the BER assumes the total growth in the South African population will be only 1,5 million people between 2000 and 2015, about 10 million people short compared with a no-AIDS scenario. The total labour force is projected to remain more or less stagnant until 2015.

The reduction in population and labour force compared with a no-AIDS scenario affects the economy both on the production side and the expenditure side. There are direct costs to the business sector such as increased contributions to medical costs or life schemes, as well as indirect costs such as absenteeism, loss of productivity, training of new workers, and recruitment. Government spends more because it faces the same cost pressures as business, and demand for health services rises. Households have to pay for health care products and services not covered by medical schemes as well as for funeral services.[23]

It is important to note that some of the negative effects are offset by the fact that unemployed people will take up some of the slack in the labour market. One should also bear in mind that, even if spending on consumer goods falls drastically, the effect on the aggregate numbers may be far less marked, because a shift in spending has occurred towards health and away from consumption.[24] A shift in spending is not the same as a decline.

The impact on overall household final consumption expenditure is negative, although the overall decline is relatively small, reflecting spending shifts. Over the projection period up to 2015, the BER estimates total final consumption expenditure growth to be reduced by 0,3 per cent a year. However, the reduction in demand for consumption goods contributes to the negative scenario for fixed investment spending. The BER projects a strong adverse impact on real private fixed investment, ranging between 1 per cent and 2 per cent lower growth per annum (2002–15).

Because of cost pressures, there is a negative effect on inflation and interest rates. This will be aggravated if the budget deficit increases markedly. The BER assumes the deficit will aggravate the pressure on inflation and interest rates, and hence on growth. Ultimately, gross domestic product (GDP) growth is on average 0,5 per cent a year lower over the projection period than otherwise. The BER says the impact manifests itself gradually: during 2002–5, growth is 0,1 per cent less; 0,3 per cent less in 2006–10, and 0,9 per cent less in 2011–15. The BER concludes that, 'while the economic impact of HIV/AIDS is negative, we are not witnessing a doomsday scenario'.

It is important to note that South Africa's budget deficit has room to increase before it starts putting upward pressure on inflation and interest rates. Hence, if government fails to step up spending on treatment significantly, the interest rate effect on growth will be less than assumed in the BER study. Perversely, one could end up with a better growth outcome if the state fails to roll out anti-retrovirals extensively, particularly if private companies provide infected workers with anti-retroviral treatment that enables them to be productive for a protracted period. However, other offsetting factors come into play and it is difficult to say for sure what the macroeconomic outcome would be if government provided no anti-retroviral therapy.

However, the point is that the headline economic growth number is not the only way to judge performance. If a social catastrophe is taking place, but the economy continues to grow, there is little cause for celebration.

A more important question than the medium term is the long-run effect on growth potential. Here, the International Monetary Fund (IMF) has some important points to make about education. IMF economist Markus Haacker has analysed the impact of HIV on the quality of education in Southern Africa, as measured by pupil-teacher ratios.[25] Based on expected mortality rates for the working population and demographic projections for the number of pupils, he finds that, as a result of HIV, 25–40 per cent more teachers will need to be trained, just to maintain current pupil–teacher ratios.

A second issue is that many families affected by HIV cannot afford to continue their childrens' education They may also need the younger members of the household to go out to work, when they are no longer able to. 'Thus, rather than improve economic growth or human capital by investing in the education sector, the issue is maintaining the gains made over the past few decades and avoiding a deterioration in the quality of education.'[26] Haacker says the loss of human capital, as well as significant costs related to HIV/AIDS, will dampen domestic and foreign direct investment and slow down economic development.

In sum, the late and limited roll out of anti-retrovirals harms South Africa's ability to invest in human capital and hence its long-term growth prospects. Over the medium term, the economic effects of HIV/AIDS may not be dramatic, but the economic effects may prove to last longer than expected because of damage to the human capital base.

Poverty relief measures

South Africa's economy has been growing on a per capita basis since 1994, notching up an average annual growth rate of 0,8 per cent from 1994 to 2002, according to figures in the June 2003 quarterly bulletin of the Reserve Bank. Although this rate of growth is hardly cause for celebration, it has at least been positive, which theoretically means that South Africans are on average better off than they were in 1993. In the nine years before 1994, per capita incomes shrank at an alarming rate – 1,6 per cent a year since 1985, when former president P W Botha dramatically failed to cross the Rubicon.

Yet while South Africans are, on paper, better off on average if GDP is used as a measure, their incomes tell a different story. Stats SA figures show that, between October 1995 and the same month in 2000, South Africans became poorer on average, when income and expenditure are used as a measure.[27] In October 1995, the average annual household income for the country as a whole was R37 000. Adjusted for inflation, this comes to R51 000 in 2000 money. But in 2000, the actual income of the average South African household was only R45 000. In other words, South African household income declined in real terms between 1995 and 2000. The trends for expenditure are similar, with South African households spending less in real terms. On a per capita basis, incomes also declined on average in real terms over the five-year period.

These statistics suggest that an alarmingly large number of households received no benefits from the per capita growth in domestic income, and are thus mired in poverty. It is therefore unavoidable that government should have a meaningful safety net for the poor. Although the ANC government has rejected calls for a universal basic income grant, as proposed by its trade union allies in COSATU, it has stepped up spending on social grants.

Over the past five years, the social security safety net has expanded. A new grant – the child support grant, for children between the ages of 0 and 7, was introduced – and access to a range of other grants was improved. The child support grant is being extended to older children. By 2005/6, all poor children will qualify for grants up to their 14th birthday.[28]

The number of social grant beneficiaries has increased from 2,5 million in April 1997 to 5,6 million in March 2003. The growth in the number of beneficiaries, together with increases in the value of grants, has resulted in strong growth in provincial social development expenditure. This growth is set to accelerate in the years to come. The share of the social development budget in provincial budgets has risen from 19,4 per cent in 1999/2000 to 21,6 per cent in 2002/3, and will exceed 25,8 per cent by 2005/6. In 2002/3, the rand value amounted to almost R29 billion. That this is well above defence spending shows that 'butter is taking precedence over guns'. By 2005/6, social expenditure is expected to grow to R51,2 billion. Rapid growth in spending on social grants is expected, with expenditure projected to accelerate at an annual average of almost 18 per cent over the three years to 2005/6.[29]

The Taylor committee found that South Africa's social security grants have a significant impact. It found that poor households that include state pensioners are, on average, significantly less poor than households without pensioners. However, at the time of writing the committee's report, half of the poor lived in households that received no social security benefits. The committee, which argued for a basic income grant, found that South Africa's 'social safety net has a very loose weave'.[30]

Aside from social grants, government has assisted the poor by stepping up other social spending. Overall spending on social services has risen sharply as a proportion of national and provincial government spending. The nature of the spending is redistributive, given its focus on improving access to education, health, welfare, and housing. Social spending accounts for 58,3 per cent of consolidated expenditure, from less than 53 per cent in 1992/3.[31] It is important to note that the social wage has improved, with more people getting access to housing, electricity, running water, sanitation, primary health care, and basic education.

Government also intends focusing on public works programmes and other job-creation projects to help the unemployed. These programmes also serve as a form of a safety net for the poor. In 1998, it allocated R1 billion from a levy placed on Old Mutual and Sanlam's demutualisation proceeds to the creation of a new body, the Umsobomvu Fund, which targets the youth in job-creation programmes.

In sum, government has recognised that it cannot wait for economic growth to trickle down to the poor. Still, economic growth remains crucial to its poverty reduction strategy. Without growth, it would not have the resources to provide safety nets for the poor.

CONCLUSION

From the reconstruction and development programme (RDP) to the IMS was quite a leap. When the ANC came to power and the RDP held sway, the government still accommodated the trade unions' opposition to export-led growth. By the time of the IMS in 2002, the trade unions' belief in domestic demand-led growth is challenged and there is an explicit commitment to the pursuit of high-tech, export-led growth focused on high-value-added goods and services.

There were other areas of metamorphosis as well. When the ANC came to power, it would have been difficult to conceive of the mass-based revolutionary movement cutting the fiscal deficit to well below the European norm of 3 per cent of GDP. Similarly, monetary policy adopted international best practice as defined by the IMF by implementing an inflation-targeting framework.

Ideologically, a major shift has taken place. Two questions arise. First, does the policy shift amount to a commitment to the Washington consensus or so-called 'neo-liberalism', as some commentators on the left maintain? Second, are the policies workable?

On the first question, the answer is that the ANC's policies represent neither the new right nor the old left. If these policies have to be labelled, the best label would be the 'Third Way' of a modernising social democracy. The party has recognised that globalisation dictates certain economic policies and has adjusted to this reality. But it has not given up sovereignty over economic policies and has actively pursued social justice.

On the question of whether the policies are workable, it must be noted that the IMS and its parent, the microeconomic reform strategy, leave a number of key questions unanswered. The policies are poorly articulated. It is difficult to work out what they mean in practice, and therefore difficult to answer the question as to whether they will work. In this way they are not radically different to the GEAR policy. This policy programme was equally afflicted by vagueness and contradictory objectives. The authors of GEAR should have extended its time frame, making it clear that the public sector would only be in a position to undertake jobs-inducing infrastructure spending after fiscal consolidation had been achieved. Perhaps it should also have been made clear that the ball, to some extent, was in the DTI's court, given the assumption of labour-intensive industrial strategy.

As has been argued, the post-GEAR policy statements did not fill the vacuum that was left once it became clear that GEAR's targets would not be reached. On growth policy, there is a big vacuum. Although there is less of a vacuum in macroeconomic policy, there are shortcomings, and the links between macroeconomic and growth policy are not explored, particularly when it comes to the exchange rate. The importance of the value of the exchange rate for export promotion and retention of jobs appears not to have been considered properly, with policymakers appearing to favour rand strength at all costs.

It is extremely idealistic to believe that a 'knowledge-based economy' can be achieved in the presence of a dire shortage of skills. South Africa's immigration legislation does not facilitate the importation of skills on a large scale, and building the skills locally is a long-term project. The new policies will also not result in an increase in jobs in the medium term. The post-GEAR economic policy strategies do not foresee jobs growth in the medium term other than from government spending, small business development, BEE and human resource development. Even for the longer term, there are many reasons for scepticism. One is the way in which economic sectors are supposed to be targeted. It looks like a wish-list approach, which includes everything from chemicals to 'cultural' industries (artefacts), but excludes raw materials and primary agriculture. The documents do not say how the industries are to be targeted in practice, but talk of developing strategies in partnership with labour and government. The language used in the IMS, with its emphasis on 'value matrices', belongs in an economics textbook rather than in a coherent statement of policy. It is difficult to see how the IMS will translate into practical policies that generate growth. It is poorly articulated and does not fulfil its stated aim of providing an industrial policy strategy document.

The microeconomic reform strategy, which gave birth to the IMS, displays fuzzy thinking. On the one hand, it wants to reduce input costs in transport, telecommunications, and energy through 'managed liberalisation' of the sectors – that is, through introducing competition. On the other, it wants the state to use its ownership of these sectors to influence prices and to prevent parastatals from making profits for the sake of profits. Subsequently, the thinking appears to have shifted decisively in favour of state ownership and management of prices in these sectors.[32]

Post-GEAR economic policy documents will mostly be remembered for the fuzziness of the language. Effectively, the post-GEAR strategy package consists of: industrial policy which emphasises high-tech, high-value-added industry and export-led growth; promotion of big projects via, among others, IDZs; pro-growth fiscal policy with emphasis on infrastructure; an effort to reduce input costs in the economy through transport, telecommunications, and energy policies and state control of these sectors; social spending to alleviate backlogs; and an emphasis on collaboration and partnership in a 'tripartite' model. To call elements of this mixture a 'microeconomic reform strategy' is obfuscation.

Finally, the IMS and the microeconomic reform strategy, which essentially promote a high-tech, high-value-added modern economy, include some incongruous comments on equity: 'Equity and increased economic participation by historically disadvantaged individuals are identified as outputs in the Microeconomic Reform Strategy. Through the IMS and the use of value-chain analysis opportunities to deliver these outputs will be identified.' The fact that equity may actually suffer as a result of the pursuit of a 'knowledge' economy which favours skilled labour at the expense of unskilled is not explored. Semantically, it is difficult to see how 'equity' can be an output of a microeconomic strategy.

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PART 5

The extended growth agenda

CHAPTER 9

SOCIAL DELIVERY IN SOUTH AFRICA[1]

Servaas van der Berg and Ronelle Burger

Service delivery in South Africa is crucially important because of the central role it can play in poverty alleviation. In the short term, services can help relieve some of the most severe burdens of destitution, and in the long term, investments in health and education can help provide an exit out of persistent poverty. Since the political transition, redirection of public spending to social delivery, particularly to the poor, has been a key objective of government. It is probably on this issue, more than any other, that it offers itself for the verdict of the electorate.

This chapter begins by assessing the equity of public spending on services, focusing mainly on fiscal resource allocation, to determine whether fiscal resources have indeed been shifted to benefit the poor. This, however, does not answer the question whether social outcomes have really improved for the poor and this more fundamental issue is addressed in the bulk of the chapter, by assessing social outcomes and social delivery across a wide range of sectors. The chapter concludes by providing an overview and tentative assessment of prospects for the future.

EQUITY OF SOCIAL SPENDING

Figure 1 illustrates the relationship between fiscal resource shifts and service provision. Inter- and intra-provincial fiscal resource shifts together determine overall fiscal incidence. However, fiscal resource shifts do not necessarily always translate into real resource shifts. Real resource shifts in turn can affect social outcomes, but again, this is by no means certain. The link between fiscal allocations and social outcomes therefore lies in the social delivery process. The difficulty lies in the fact that not all social outcomes are readily measurable or can be directly related to particular items of expenditure.[2]

SOCIAL SPENDING BY RACE AND INCOME GROUP

Given large income inequality, aspirations of the newly enfranchised focused on the role of government as redistributor of income. It has been estimated that the black population's share of social spending increased from 28 per cent in 1975 to 70 per cent in 1993 and then to a full 80 per cent in 1997.[3] The former government had instituted social reforms to deflect political pressure, leaving relatively limited scope for the new government to shift fiscal incidence much further, outside of education; nevertheless, further fiscal shifts followed the transition.

Figure 1: A scheme for analysing the link between fiscal resource shifts and social outcomes

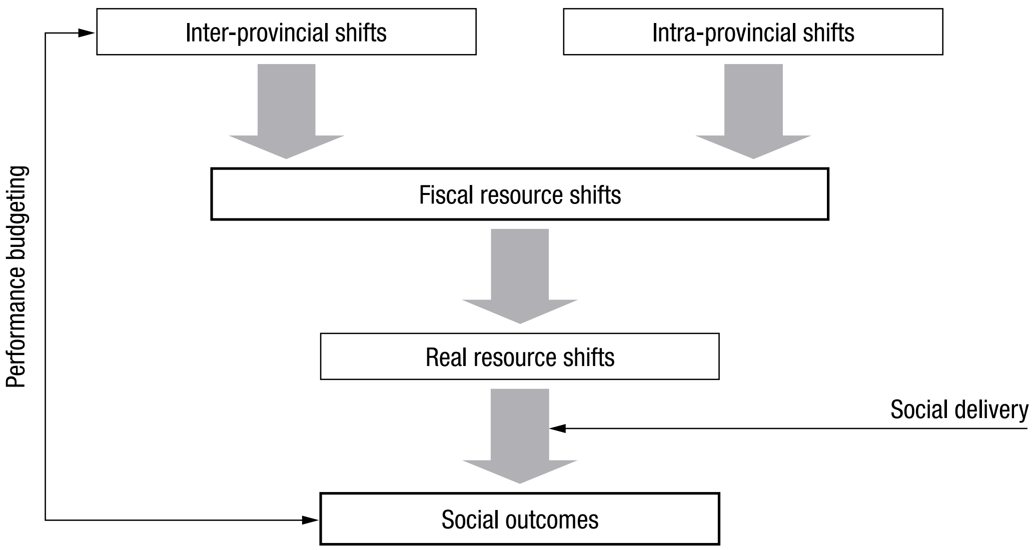
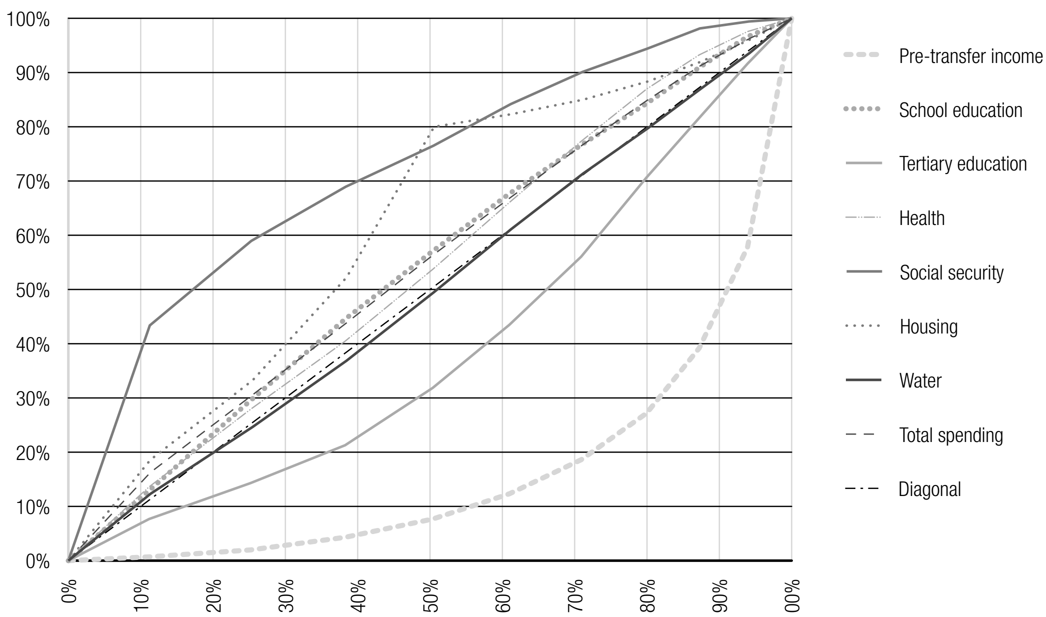


Figure 2 shows a Lorenz curve of income excluding social transfers – the Lorenz curve shows the cumulative proportion of income from the poorest to the richest deciles – and concentration curves for the various types of social expenditure. Concentration curves show the cumulative proportion of spending for these groups:

- Where concentration curves lie above the Lorenz curve (as in all instances here), spending is progressive – it improves aggregate resource distribution.
- Where the concentration curve also lies above the diagonal (true here for social transfers), spending is targeted at the poor, that is, they get more than their population share.

Figure 2: Lorenz curve and concentration curves for SA, 1997

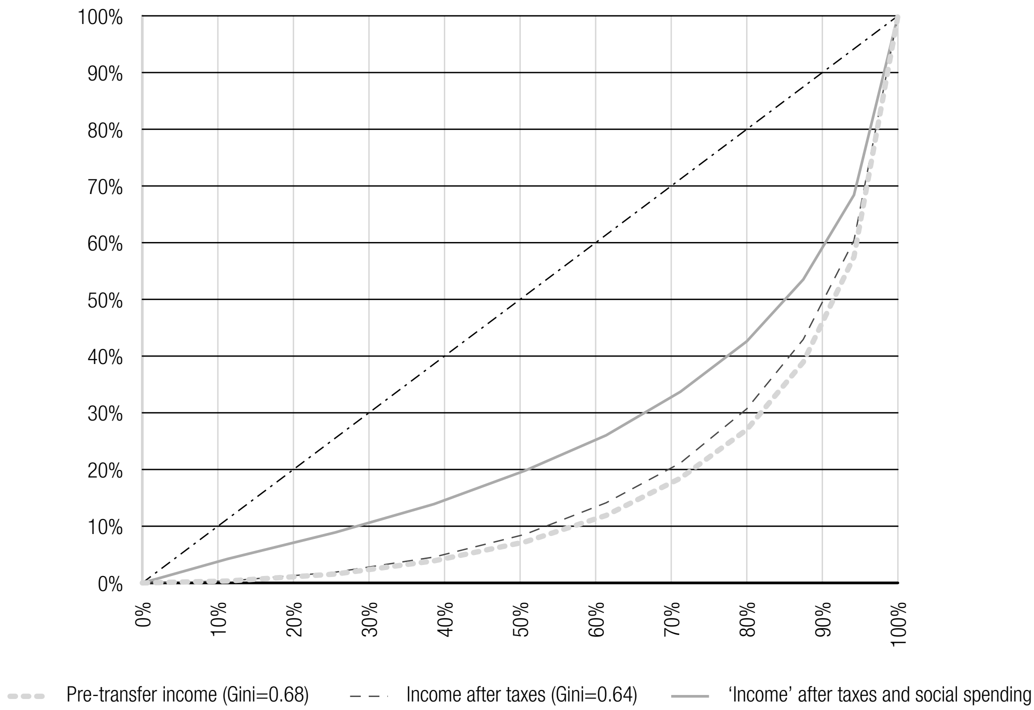


Already by 1997, all social programmes were progressive in their effect (the poor gained more than proportionately to their income) and some were quite well targeted (the poor gained more than proportionately to their population share), particularly in comparison with other developing countries. Near-universal access to education, targeting of social transfers through means testing, and the opting out of public health services by the affluent have contributed to surprisingly good targeting. For all services, the targeting was remarkably good in 1997 and reflected a considerable shift of fiscal resources since 1993. That the distribution of total social spending closely follows the geographic distribution of population among metropolitan, other urban, and rural areas is exceptional for a developing country, which usually experiences considerable urban bias in public spending because of strong urban pressure groups and little rural infrastructure. Individual items do show some deviations from the overall pattern: housing spending was disproportionately targeted at metropolitan areas, while social transfers were extremely well targeted at rural areas.

Figure 3 shows a Lorenz curve for income *from which has been subtracted all transfer incomes*, in order to investigate the impact of government spending and taxes. The Gini coefficient associated with this Lorenz curve is a very high 0,66.[4] If taxes are also included, the Gini coefficient declines only slightly to 0,64. If the impact of social spending is also included, however, the Gini declines to 0,44. The redistributive impact of social spending thus far exceeds that of taxes (commonplace in developing countries, where taxes have a minor impact on overall income distribution).

The shift of real social spending after the political transition was a major achievement. Between 1993 and 1997, the value of social services provided to blacks increased by more than

Figure 3: Lorenz curves for pre-transfer income, pre-transfer income after taxes, and pre-transfer income after taxes and social spending



50 per cent.[5] However, little of this fiscal shift resulted in real resources shifts. About half of this increased spending on social services was allocated to school education and, of this, about half reflected purely salary increases for black teachers in the immediate post-transition period – some to eliminate backlogs, some driven by trade union gains.

One of the possible consequences of such a major shift of resources might have been a political backlash from the white (and possibly other) middle classes, who bore the brunt of the cutbacks in expenditure. Such a backlash did not occur because, firstly, the government wisely did not try to increase redistribution from the tax side, and even provided some tax relief to segments of the middle class. Second, the patent inequity of the previous dispensation regarding social spending reduced the moral base for opposition. Third, the decision (against much opposition within government) to allow school governing bodies to supplement public resources with private resources allowed parents to maintain quality of schooling without having to move their children to private schools, albeit at a financial cost. Taxing the resources of richer schools in order to provide more resources for poorer schools creates the danger of driving the more affluent away from the public school system,[6] but, interestingly, quality concerns have not caused the massive haemorrhaging from public schools evident in Latin American countries. The maintenance of attractive alternatives within the public school system for the middle class was important in this regard. Finally, not only the middle class, but people of all income groups prefer private health care services[7] where they can afford and have access to it.

THE IMPACT OF SOCIAL SPENDING

If social spending is relatively well targeted, does it improve social outcomes? In health and other social services there is often a long chain between public spending and social outcomes. International comparative evidence indicates that government health spending has a limited impact on health outcomes,[8] as it is mediated by how it affects the composition of spending and how this in turn impacts on public provision of effective health services; and by the fact that it is not necessarily the same as total consumption of effective health services, given the role of private provision. Lastly, consumption of health services is only weakly linked to health outcomes, because many other factors also influence health, eg nutrition, sanitation, clean water, and life style.

International evidence shows that increases in expenditure on education also do not necessarily translate into better educational performance. Summarising the literature on educational performance and education spending, Hanushek concludes that ‘the amount of spending internationally does not have a very close relationship to the performance of students’ and that, in the USA, considerable increases in educational spending have been accompanied by no increases in student performance from 1970 to 2000.[9]

Thus a bigger social budget does not guarantee improved social outcomes, whether for a country or for the poor. In post-1994 South Africa, many social service sectors are facing the same challenges and dilemmas. Firstly, whereas the focus was initially on improving equity by spending more on the poor, and integrating the numerous apartheid service authorities into a coherent new network, the focus has now shifted to improving efficiency. In service delivery, inputs are much easier to measure than social outputs, but where measurement of efficiency is possible (as in school performance) evidence suggests a larger malaise.

Secondly, most departments admit that monitoring and evaluation have not been adequate and that problems were often not detected early enough. Many departments still lack the data to monitor service delivery performance. Performance budgeting has not yet had much impact on efficiency at either national or provincial levels.

Thirdly, social delivery focused merely on the quantity of output can have undesirable outcomes. Initially the emphasis was on quantity, but many departments are realising how important factors like customer education, satisfaction, and ownership are for ensuring that expenditure translates into long-term benefits. Departments have started to emphasise the importance of quality, but few are acknowledging the cost of quality by adjusting their budgets and timelines.

Fourthly, local devolution of power is exacerbating capacity problems. Government officials and policy critics[10] indicate that capacity problems are concentrated in three specific skill areas: technical expertise;[11] social facilitation; and the management, planning, and financial control function. Capacity problems are related primarily to suboptimal training and education under apartheid, but were exacerbated by the drastic public service restructuring after 1994 which disregarded opportunities for mentoring and training by experienced staff, and resulted in the loss of much embedded knowledge and organisational memory. The voluntary severance package scheme had the perverse effect of getting rid of many of the most competent staff, to the extent that 'what is remarkable is not that there are shortcomings in the governance system, but rather that it has managed to stay afloat'.[12] Capacity problems have often either been side-stepped by using consultants or inadequately addressed with instruction manuals or one-day training workshops. Given existing fiscal constraints, and the scale and level of training required, learning networks might be a next-best alternative. Capacity problems are also not necessarily implementation problems: when available personnel do not have the skills or experience to implement designed policies, the policy makers themselves are at fault.

Fifthly, a lack of coordination between departments has hindered the ability of service delivery to improve the lives of the poor.

Sixthly, the geographical bias in service delivery has proven to be persistent. Most post-1994 progress in social delivery has been concentrated in urban areas and urban provinces, because service delivery in rural areas is often more complex, costly, and time consuming than allowed for in the initial emphasis on quantity and speed of delivery, and because rural provinces often had inadequate infrastructure, resources, and management capabilities.[13]

Lastly, sustainability remains a big concern. The government responded to media attention regarding non-payments and cut-offs[14] with a wave of legislation on free basic primary health, water, and electricity, and proposals for free basic education and sanitation. The few local case studies on user fees indicate that the elimination of fees increases access;[15] however, abolishing user fees can have substantial fiscal and long-term affordability implications.[16]

It is also not clear that these programmes fully address the underlying problem. Payment problems are related to poverty,[17] but the literature also refers to failures in the community consultation process, poor client management, lack of responsiveness to client complaints, local government revenue management (and specifically billing) problems, an expensive and inappropriate range of service options offered to communities, and the inability to hold communities and individuals accountable for their decisions effectively.[18] Underlying many of these problems is a disregard for the distinction between patronage and empowerment. While poor households are more vulnerable and thus need more support, this support has often been equated with a denial of their preferences and ability to make informed decisions about their own lives. When service delivery is equated with 'handouts' and the attainment of specific service delivery quantities, it can alleviate poverty but its impact on social mobility will be limited. If the focus of service delivery is advancing social mobility, then the emphasis should be on creating a system where individual effort, initiative, and responsibility are rewarded. The government can accomplish this by providing sufficient support to ensure universal access to education, training, and employment opportunities, and eliminating obstacles that prevent citizens from benefiting from these opportunities.[19]

Primary and secondary education

The new government inherited a situation of large-scale educational inequality, whose effects are likely to remain pervasive for decades. Driven by both inter- and intra-provincial fiscal redistribution, after 1994 there was a strong shift towards spending on black education, while overall spending on school education also rose substantially in real terms.[20] A study in Western Cape schools shows there is now far less inequality in public spending per pupil at both primary and secondary level.[21] Remaining inequalities largely result from differences in teachers' qualifications and experience.

Efforts aimed at inducing more equitable access to quality schooling included:

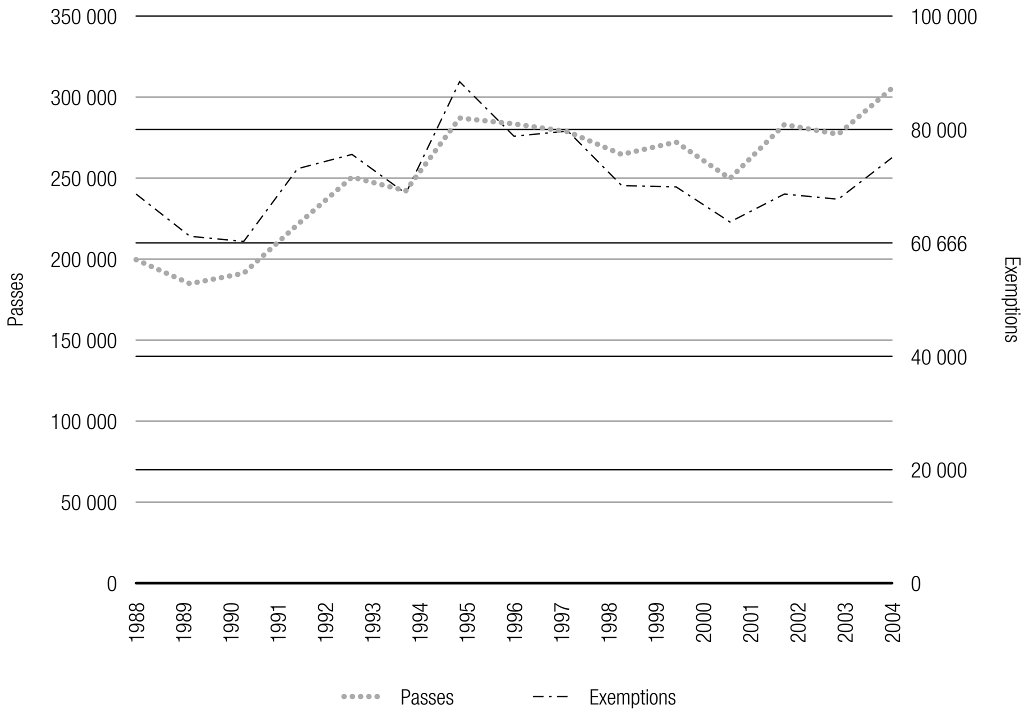
- shifts in the allocation of education expenditure, including a redistribution of teaching resources: average pupil–teacher ratios decreased from 47:1 in 1994 to 35:1 in 2000;[22] from 1987 to 1997 black primary school pupils per teacher declined from almost 46:1 to 37:1, while for whites it rose from 18:1 to 28:1, and similar trends were evident at secondary schools;[23]
- infrastructure investments – notably, the national school-building programme that set aside R1,3 billion for the construction and repair of school buildings from 1994 to 1996;[24] and
- a primary school nutrition programme providing about 5 million pupils with a nutritious early morning snack during the school week.[25]

There was a strong move to deracialise schools, enrolments continued to grow, and education became virtually universal up to about age 15.

The new government inherited an educational system with little legitimacy and a top-down management style. To democratise education, school governing bodies were given responsibility for setting school fees to supplement public resources, with some given section 21 status, better to control both private and some public funds; for self-monitoring of teacher progress via the development appraisal system; and for skills training for management and teachers.

Despite the fiscal and real resource shifts in education, the number of successful matriculants has not increased since 1994, and university exemptions – a measure of quality – have declined (figure 4). In this period, the number of pupils of matriculation age also increased, so that successful matriculants and matriculation exemptions both declined substantially as percentage of the 19-year-old cohort. Matriculation pass rates differ substantially by school-fee levels, racial composition, and province, ranging from 47 per cent in the poorest schools (where fees are less than R20 per year) to 96 per cent in the richest schools.[26] The gap between schools in which blacks comprise more than 70 per cent of pupils and those in which whites dominate is even slightly larger. Moreover, in some measures of quality there are vast gaps in performance – in 2000, only 15 per cent of black pupils who wrote mathematics at higher grade passed, as against 42 per cent for pupils of all races.[27]

Figure 4: Matriculants and exemptions, 1988–2001



Source: Research Institute for Education Planning, Education and Manpower Development; department of education [online]; National treasury, Intergovernmental fiscal review 2001 and 2002.

Performance on international mathematics and language tests remains poor at all levels of the school system. A recent study of reading comprehension and mathematics performance in ten countries of southern and eastern Africa found that South African students performed below average (and the third worst of all ten countries) on both tests.[28] South Africa's standard deviation was exceeded only by Mauritius and matched by Uganda, indicating a high degree of inequality in performance. A department of education report noted that 'scores measuring reading in Tanzania are about 50 per cent higher than South Africa's scores. Yet Tanzania spends about half as much as South Africa in terms of expenditure over gross national product (GNP), even if we adjust the expenditure indicator for the fact that Tanzania enrols a smaller proportion of the school age population'.[29] This does not even consider the much smaller GNP of Tanzania. Also, despite far greater fiscal resources, South Africa lags behind much of the region in terms of availability of text books, particularly in mathematics.

Similarly, the recent systemic evaluation of 54 000 Grade 3 pupils in South African schools indicated great shortcomings already at this early stage. Scores on life skills and listening comprehension were 54 per cent and 69 per cent respectively, and dropped to 38 per cent for reading comprehension and 30 per cent for numeracy.[30] In the Western Cape, A-aggregates and university exemptions are concentrated in the higher-school-fee groups, whereas failures are concentrated in poorer schools; and only 15 per cent of all matriculants in poorer schools – irrespective of whether mathematics is offered – passed mathematics, versus 75 per cent in the richest schools. In higher grade alone, poorest schools have fewer than 1 per cent of pupils passing, as against 25 per cent in richest schools.[31]

Despite the lag between shifts in fiscal resources and shifts in outcomes, data shows a disturbingly perverse relationship between fiscal shifts between provinces and growth in number of matriculation passes, 1996–2000. The provinces that experienced the greatest decline in fiscal resources are also those which increased numbers passing matric; thus, erstwhile better endowed provinces improved the efficiency of resource use under pressure of cutbacks, but the same has not occurred in poorer provinces which gained from fiscal shifts.

This analysis illustrates that inequalities in access to education and in educational resources have become increasingly less important than inequalities in outcomes. Work on school performance suggests that inefficiencies in transforming inputs into outcomes can be ascribed to poor school management.[32] This is confirmed by case studies on school efficiency.[33] There is an emerging consensus that teachers and schools lack accountability to clients and policy makers.[34] In policy circles, it is said that the initial focus has been on access and redistribution, but that the time has now come to emphasise accountability and performance. Proposals include whole-school evaluation, performance measurement at primary school level, and more stringent controls on schools and teachers, to the extent of dismissing teachers where schools are not performing.

Tertiary education

In the post-transition period, despite great shortages of tertiary-educated skilled workers, overall growth in university student numbers was slow (2,3 per cent a year in 1993-2000, only slightly above the growth of the university-aged cohort, and in part artificially resulting from a redefinition of some students at non-university institutions). This was largely because of the poor performance of the school system in generating more matriculants with university exemption, funding problems experienced by prospective students, and perceptions that non-technical university education does not improve job prospects. Consequently, national participation in higher education as a whole (universities and technikons) declined from 17 per cent to 15 per cent of the age cohort between 1996 and 2000[35] – compared to the objective of 20 per cent set to bring South Africa into line with other middle-income countries. Black university student numbers expanded more rapidly, at 5,2 per cent a year; by 2000 they constituted half of all university students and indeed of university graduates. However, their growth was limited in fields such as engineering, natural science, and commerce. Technikons fared somewhat better, but had similar problems in attracting students outside the humanities.

The proportion of black students attending formerly white universities increased from 25 per cent to 57 per cent between 1993 and 1999.[36] Notably, the racial composition of former Afrikaans universities was rapidly transformed: their black student numbers increased from just over 4 000 in 1993 to 73 000 in 2000.[37] Only some of this exceptional growth was accounted for by special arrangements with other educational institutions (colleges) and the growth of distance education. Research shows that almost as many black grade 12 students would prefer to study at historically Afrikaans universities (10 per cent) as at historically English universities (11,3 per cent), and more than those who gave historically disadvantaged universities as their first choice (9,7 per cent).[38] Increased competition for students set in motion by the deracialisation of formerly white universities exacerbated the financial problems of historically black universities, which lost about a quarter of their student numbers (almost 20 000 students).[39] Government's impatience with both financial and quality problems in some historically black universities impelled the recent restructuring of tertiary educational institutions, though it now appears that considerable additional fiscal resources will be required, and that incentive structures have not changed in ways that will clearly improve the quality of education provided.

Increased involvement by the department of education in university affairs, particularly regarding curricula, has little affected actual teaching, but added a bureaucratic burden resented by better-performing universities. Nevertheless, there is no evidence of deterioration in the capacity of the better universities to provide quality education. Moreover, they now serve a larger proportion of students. Thus there has been progress in service delivery in university education, though constrained by poor output from the schools (in terms of students with university exemption, or well prepared in mathematics and physical science): only a little more than one in five grade 12 pupils who announced their intention to study further in the fields of science, engineering, and technology had taken mathematics at the higher grade.[40]

Social security transfers

South Africa's system of social security is dramatically advanced for a country at its level of economic development, due to the extension, under political pressure, of welfare-state features for whites to the whole population.[41] Social security expenditure ratios (both through the budget and pension funds) have reached levels only surpassed by Western European welfare states in the post-World War 2 period.[42]

South African social security today has two main components: occupational (social) insurance, funded from employers' and employees' contributions, and covering about 40 per cent of the workforce; and social assistance, categorical transfers such as old-age pensions, disability grants, and child support grants. Means testing ensures targeting at the poorest, but can generate perverse incentives when own pension income reduces pension benefits received from government, thus discouraging own saving for retirement. Social assistance makes a massive contribution to reducing rural poverty: although data is suspect,[43] it is likely that 85 per cent of the elderly receive old-age pensions, and most others do not qualify for grants in accordance with the means test.

The system of social assistance grants was open to much abuse (both fraud and corruption) under apartheid, but, through the implementation of a national data system of grant receivers (SOCPEN) and of private out-contracting of the delivery of social transfers, there are now fewer problems with payouts and reduced administrative obstructions to beneficiaries.

The main recent feature of social assistance has been the rapid growth of the new child support grants (CSGs) which, in numerical terms, have become the largest grant category, rapidly overtaking the old-age pension,[44] although the much larger grant size of the latter (R700 maximum versus R160 per child grant) maintains the latter as the most costly to the fiscus. The impact of the old-age pension on poor communities is well known;[45] it has even been mooted as an important determinant affecting household formation and structure, intra-household inequalities, and decisions regarding migration or labour force participation of other household members.[46] The CSG, expanding to children of higher ages and increasing in value, is likely to have similarly important impacts on poor communities and households.

According to SOCPEN data, the 355 000 grants disbursed in April 2000 had grown to 975 000 by April 2001. When the income and expenditure survey and October household survey (IES/OHS survey) was undertaken in October 2000, instead of perhaps some 550 000 grants, only 275 000 grants were actually recorded, indicating considerable under-reporting. Penetration rates for the CSG, though still extremely low, were somewhat better among the poor.[47] If the means test works properly, all grants should go to the bottom 40 per cent of children; but about one-third of grants leak to the non-poor, increasing fiscal costs.

Care dependency grants and foster care grants have been growing very rapidly from a low base. This may be partly explained as a normal expansion of these grants into areas and communities where they were previously not widely implemented, but another reason might be HIV/AIDS. Even if a clear policy on HIV/AIDS orphans existed, government would be in a difficult position, faced with potentially astronomical fiscal costs and lacking capacity to place so many orphans in foster homes.

Social welfare services

Social welfare services deal with foster care, child abuse, street children, substance abusers, facilities for the aged, places of safety, and reform schools.[48] Discrimination in welfare service provision under apartheid was greater than in any other field of social services.[49] The typical service model is one of provision by non-governmental organisations (NGOs) or community-based organisations (CBOs), with relatively small and thinly spread support from government subsidies, and some public provision of services (consisting mainly of personnel costs and subsidisation of private sector welfare services).

A major problem of the private welfare system is a reduction in funding due to a stagnation of allocations and a decline in foreign funding. Although the share of welfare services in the GNP and the budget has been stable, this is not adequate to permit expansion to meet wider needs. Extending the level of white welfare service costs per capita in 1993 (approximately R216 in 2003 rands) to the whole population (who then consumed about R62 each in current purchasing power)[50] would be expensive but not preposterous. Present spending on welfare, excluding social transfers, is R117 per capita[51] barely half the level that whites received at the end of the apartheid era. But even increasing spending to former white levels would not cover higher cost structures in rural areas and the relatively greater need by the poor for welfare services. It would also require thousands of additional social workers and provincial service staff, and new and stronger private welfare organisations with a stronger rural presence. Since this is unlikely, the new developmental social welfare policy might best serve the needs of the poor by improving oversight and, where capacity exists, redirecting resources.

Health services

Measured in aggregate, apartheid's health system was grossly ineffective. In 1992/3 private and public health spending combined was among the highest in the world at 8,4 per cent of gross domestic product (GDP), yet inequalities in provision meant that the country was not among the top 60 in terms of health status indicators.[52] Before HIV/AIDS, the differential in life expectancy at birth between white and black South Africans was more than 10 years.[53] In 1990, average infant mortality rate per 1 000 births was 7,4 for whites and 48,3 for blacks.[54]

Government's post-1994 attempts at improving health outcomes have focused on primary health care in order to enhance access, through resource shifts to historically poorly endowed provinces and, within provinces, particularly to clinics. Considerable inter-provincial differences in the distribution of resources remain, even after removing the conditional grant component used to fund tertiary hospitals and training of health professionals in large urban centres. Gauteng's and the Western Cape's ratio of personnel to users is almost double that of the Eastern Cape, Mpumalanga, and Limpopo.[55]

Since 1994, more than 700 new clinics have been built and another 249 substantially expanded.[56] The proportion of South Africans who needed more than an hour to travel to the nearest health-care site decreased from 20 per cent to 15 per cent from 1994 to 1998,[57] but shortages of staff and supplies remain a problem;[58] 37 per cent of South Africans thought that availability of medicine had worsened and 41 per cent believed that waiting times had increased over the previous four years.[59]

In 1994 the government introduced free primary health care to pregnant women and young children, and two years later expanded this to cover all users. Health service utilisation increased at most facilities; however, patients still appeared to bypass clinics and visit hospitals, due either to a lack of local alternatives, or inadequate levels of service, staff, and equipment at clinics.[60] The distance to the nearest facility and the availability of transport still limit access to primary health care: in 1998 most blacks needed between 30 minutes and one hour to reach their closest clinic.[61] The average 1,8 annual visits per person to primary health care facilities in 2002 were far below the estimated required utilisation rate of 3 to 3,5 visits per year.[62] There are also indications that users often prefer private health facilities or practitioners. Palmer[63] contends that poor households often choose to pay for private health services when these services are provided free at public clinics,[64] because in rural areas private clinics are sometimes more accessible, while in urban areas, private clinics are perceived to offer better quality,[65] less waiting time,[66] and more privacy.[67]

The department of health has committed itself to 'accelerating quality service delivery'.[68] The number of children immunised at one year of age – an indicator of effectiveness – improved considerably, from 63 per cent in 1998 to 72 per cent in 2002, though this is still far from the targeted 90 per cent coverage.[69] The impact of HIV/AIDS has caused life expectancy at birth to decline, from 57 in 1996 to 52,5 in 2002, and increased TB incidence, from 360 to 426 per 100 000 people from 1999 to 2001.[70] The prevalence of HIV has increased from 0,8 per cent in 1990 to 10,4 per cent in 1995 and 24,8 per cent in 2001.[71] It was estimated that there were 5,4 million HIV-positive South Africans in 2000, a number projected to grow to 8 million by 2010,[72] placing considerable strain on South Africa's already overburdened health system.[73]

Housing

In 1994 the government estimated that the country had a backlog of 3 million houses and pledged to build 1 million houses over the following five years.[74] By September 2000, it had completed or was in the process of completing 1 066 005 houses, an internationally unprecedented accomplishment.[75] By the end of 2002, 1,6 million subsidised houses had been or were in the process of being built.[76] According to household surveys, the proportion of households with formal housing increased from 66 per cent to 73 per cent from 1995 to 2000.[77] A backlog of 1,8 million houses remained.[78]

However, this single-minded focus on delivery speed and quantity – with subsidies as key measurement of performance – has had a considerable cost in terms of quality. The National Housing Code[79] envisioned 'habitable, stable and sustainable public and private residential environments' that would result in 'viable households and communities in areas allowing convenient access to economic opportunities and to health, educational and social amenities'. Peripheral location, inferior construction quality, and a lack of social and physical infrastructure represented a violation of this vision.[80] Quality concerns were the second most important reason, after affordability, for low-income home owners defaulting on their loans.[81]

Government responded to quality concerns by introducing minimum norms and standards that stipulated a maximum of 46,8 per cent of the subsidy could be spent on land and services – to ensure that there was enough money left to build a durable high-quality house. The subsidy was increased from R16 000 to R20 300 in April 2002, and to R23 100 in April 2003.[82]The government also expanded the warranty offered by National Home Builders Registration Council to include state-subsidised houses. These quality regulations are said to have raised costs and forced developers out of the subsidised housing sector, and it is still noted that, notwithstanding government rhetoric about quality, 'quantity and rate of delivery [are] still the most cited indicators of success'.[83] To increase homeowners' sense of responsibility, ownership, and value, the department of housing now insists that, to qualify, subsidy beneficiaries must contribute either labour or a basic amount (R2 479).[84] The department's social housing programme – including rental schemes – is a response to demands for increased flexibility.[85] Under-spending, attributed to difficulties in obtaining suitable land and lack of capacity, has been one of the department's biggest headaches,[86] along with the withdrawal of many large banks and construction players from the sector due to perceived high risks and low profits. Subsidised housing is not accepted as collateral by the financial sector because there is no market for these houses,[87] while the Housing Amendment Act's eight-year no-sale freeze,[88] an effort to prevent cash-strapped consumers from selling their houses at undervalued prices, has made the market even less attractive.

Water and sanitation

In April 1994, 16 million (42 per cent) of the country's then population of 39 million did not have access to basic water supply, of whom 12 million lived in rural areas. Just over 20 million people (53 per cent) did not have access to basic sanitation facilities. Responsibility for water supply and sanitation was dispersed among local governments and the homelands. Service provision standards in the white municipalities were comparable to those of industrialised countries, while the level and standard of services for blacks varied, but was consistently inferior.[89] In 1994 the new government made the department of water affairs and forestry (DWAF) responsible for ensuring at least a basic level of water services to the whole population on a sustainable basis.[90] The government was not involved in delivering services, but focused on providing support to local government, which could delegate the service provider function, but not the responsibility,[91] for water and sanitation service provision.[92]

Towards the end of the 1990s non-payment was identified as a serious problem, interpreted by many as evidence that poor users were unable or unwilling to pay for services at a cost-recovery level. However, much of the blame could also be attributed to inappropriate technology choices, inadequate community consultation, unrealistic user expectations, and a lack of technical skills and know-how in DWAF.[93]

In response to payment problems, a free basic water policy was introduced in 2000, recommending that the first 6 000 litres of water per household per month should be provided free, funded via the combination of a national subsidy and cross-subsidisation.[94] By 1 July 2002, free basic water had been implemented by 198 of the 262 local government authorities, and was serving more than 27 million people (59 per cent of the total population), even though 53 per cent of those living in areas where the policy has been implemented are not indigent.[95] Critics have questioned the workability and long-term affordability of this policy, arguing that it requires supply systems where the basic amount can be provided at a cost less than the portion of the equitable share that municipalities are willing to allocate, mechanisms to control consumption and charge customers for excess consumption, and the political will to restrict the use of non-payers.[96]

From 1994 to June 2002, DWAF provided new water services to 7,7 million people, while another 9,6 million benefited from water service projects via the consolidated municipal infrastructure programme.[97] The proportion of the population with access to clean water grew from 78,5 per cent in 1995 to 84,3 per cent in 2000.[98]

Sanitation delivery lags behind water service delivery, but has speeded up following the cholera outbreak in KwaZulu-Natal in 2000. The demand-based approach was abandoned, the budget for sanitation projects was increased, sanitation education was highlighted, and the subsidy on material and building costs was increased in 2002.[99] From 1994 until June 2002, 1,1 million South Africans benefited from DWAF sanitation projects and an additional 5,6 million were served via consolidated municipal infrastructure programme projects. Household surveys estimate that the proportion of households with access to flush toilets or pit latrines fluctuated around 87 per cent.[100] The white paper on basic household sanitation aims to provide a free basic level of household sanitation to mainly rural communities and informal settlements.[101] According to DWAF estimates, 15 per cent of South Africans, 57 per cent of schools, and 61 per cent of clinics are still without adequate water, and 39 per cent of South Africans, 66 per cent of schools and 69 per cent of clinics do not have access to adequate sanitation, especially in rural provinces.[102]

Electricity

By the end of 2000, 3,1 million homes had been electrified.[103] In 2001 and 2002 another 675 490 homes were connected, bringing the total number of electricity connections made between 1995 and 2002 to 3,8 million.[104] Household surveys indicate that electricity use for lighting rose from 64 per cent in 1995, to 72 per cent in 2000. Between 1994 and 2002, 7 637 schools had been supplied with electricity connections.[105]

Eskom had committed itself to ensuring that every household had access to electricity by 2010.[106] By 2002, 32 per cent of households did not have access to electricity, a backlog with a strong rural component. Half the homes in rural areas had not been electrified, while only 20 per cent of urban homes were not connected. There is also considerable variation in coverage between provinces: 84 per cent of homes in the Western Cape had electricity, while only 56 per cent of those in KwaZulu-Natal were connected.[107]

As in other sectors, non-payment and illegal connections were serious problems, the latter costing Eskom R51 million annually. To address the payment problem, a free basic electricity programme has been proposed, aiming at providing the first 50 kilowatt hours free.[108] Breaking up Eskom's monopoly, electricity distribution is intended to become the responsibility of six regional bodies representing mergers between municipal and Eskom suppliers, which will have a dramatic impact on municipalities such as Cape Town where revenues from electricity distribution represent 34 per cent of their total income.[109]

OVERVIEW AND PROSPECTS

This report shows that government has been outstandingly successful in accomplishing fiscal resource transfers to formerly disadvantaged individuals and provinces. However, resource shifts have often failed to deliver the expected improvements in social outcomes.

The government has performed well in terms of delivering physical infrastructure to the disadvantaged, but the aim has frequently been on observable delivery quantities, with little regard for the less tangible dimensions of service quality, which are crucial for improving social outcomes. Since 1994 the government has built 1,6 million houses, provided 17,3 million households with access to water services, electrified more than 3,8 million homes, and constructed at least 700 clinics. All this appears to have made surprisingly little difference to the vulnerability of poor households, in terms of their health, employability, and access to credit. It seems that only social transfers and, perhaps, electricity – where there is very little distinction between service delivery quantity and quality – were unquestionably effective in improving the material situation of the poor.

In all areas, deficiencies in service delivery quality are evident. In housing, home owners complain about inferior construction quality, the peripheral location of the houses, and the lack of social and physical infrastructure. The high incidence of failed water service projects is blamed on inadequate community consultation and inappropriate technology choices. In primary health, users are dissatisfied with the quality of diagnosis, prescription, and counselling; long waiting times, and the disrespectful attitudes of clinic staff. In schools, the number of successful matriculants has not increased and the number of university exemptions has declined, attributed mainly to a lack of accountability of teachers and schools to users and policy makers.

Problems with illegal connections and collection of user fees are at least partly related to the user complaints outlined above. The government's decision to introduce multiple free basic service schemes attempts to address affordability concerns, but if user complaints and revenue management issues are not attended to, non-payment is likely to remain a headache. As mentioned earlier, the underlying problems are related to the distinction between empowerment and patronage. The government's initial focus on quantity has limited the ability of services to empower and hence enhance social mobility.

The geographical bias of social delivery is associated with differences both in delivery quantities (for instance, in water, sanitation, and electricity, shortages have a strong rural component) and in service quality (for instance, in health care, where the distance to primary health facilities and the availability of transport still limit access).

In most cases departments are aware of the issues described here and have already started to implement remedial measures. Government and policy commentators have indicated that there has been a shift from the initial focus on access and redistribution to one on accountability and performance.

The problems with service delivery must be viewed in context. The post-1994 government was faced with the difficult task of juggling various demands – union calls for wage increases, improving public sector representivity, and meeting the needs of the mainly rural poor without antagonising the urban middle classes – while constrained in its ability to expand social spending due to the sluggish economic climate. Consequently, government was setting ambitious service delivery goals while it was dramatically changing the service delivery framework (moving away from apartheid) and service delivery avenues (restructuring the fragmented and racially biased public service).

The institutional environment should be more stable over the next five years, providing an opportunity for consolidation and, in the context of service delivery, also an opportunity to focus more narrowly on ensuring that spending translates to improved social outcomes. At least, the more stable institutional environment should mean that capacity problems are unlikely to worsen. There are fewer reasons for dramatic changes in staff as the restructuring required to create the new provinces and departments has been completed, and government now seems satisfied with the representivity of the public service.

Capacity constraints are likely to remain a key obstacle, in so far as problems with service quality are often linked to skills shortages. For instance, in water and sanitation, the selection of overly sophisticated and expensive solutions was partly attributed to a lack of technical skills and know-how; and the persistently poor matriculation results of poor schools can be partly blamed on the lack of management expertise of their principals and school governing bodies. The public service's shortage of skills will endure unless this problem is prioritised. Fiscal constraints render it unlikely that the problem can be adequately addressed via investment in training courses alone. Mentoring and learning networks can provide a cost-effective supplement to formal training, and so can partnerships with the private sector and NGOs (where possible and desirable). Avoiding over-ambitious policy and introducing more routine should also help.

Improved monitoring and evaluation within the public service can make a vital contribution by enabling the recognition of excellence, and the identification and punishment of inferior performance. Monitoring and evaluation can also correct for capacity problems by allowing the early detection of problems in delivery. Data-gathering research for this report also revealed that information required for effective monitoring and evaluation was often not readily available. The envisaged more stable institutional environment could enable better co-ordination of policy and implementation across departments, crucial for improving service quality and hence social outcomes.

In short, the outlook for the future with regard to service delivery is largely dependent on government's success in addressing the capacity problems that have constrained social delivery performance since the political transition.

ENDNOTES

1 The full commissioned report upon which this chapter is based can be obtained from the Centre for Development and Enterprise (CDE).

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CHAPTER 10

WELFARE AND DEVELOPMENT

Stefan Schirmer

There is a growing consensus that the government is heading in a new direction regarding the crucial issues of welfare and development. This shift is seen to be influenced by two contrasting imperatives. The first is that economic stabilisation has been successful and that growth has been taken care of. The second is that the market, on which the African National Congress (ANC) relied during most of its first ten years in power, is not up to the job of transforming South Africa and, especially, of meeting the needs of the poor. In response, the government has, since being re-elected, moved to promote development more directly and to provide greater assistance to the poor. It is therefore tentatively resorting to 'developmental' and 'welfare state' strategies to tackle the crucial challenges of poverty and inequality in South Africa.

Is this new path likely to improve the lives of the poor and/or to put South Africa on a more sustainable development path? This question is tackled below by analysing the nature of the government's recent development thinking; by assessing the recent trends in development and welfare policies; by exploring how these will impact on crucial variables such as budget deficits, tax rates, state capacity, and the state of poverty in the country; and, finally, by assessing whether this is the best way to help the poor people of South Africa. We conclude by arguing that, while transfers to the poor and other kinds of state-directed developmental interventions like the expanded public works programme are important, they can only work effectively in a context of sustained, market-led growth. The government's shift towards state-led development is therefore badly timed and not likely to solve the problems of poverty and inequality in our country.

THE NEW GOVERNMENT'S DEVELOPMENT VISION

The ANC was re-elected in 2004 on the basis of a ticket that promised a better life for all. Rather than carrying on as usual, the ruling party committed itself to new directions and initiatives that would significantly transform the lives of the poor. These new directions were essentially encapsulated within the concept of 'two economies', which was brought to the fore soon after the election victory.

As far as can be ascertained, the earliest mention of this two economies idea appeared in 2003 and was made by the national executive committee of the ANC. The concept was then expanded upon in January of 2004, when the ANC put forward the core elements of its election manifesto. The essential points made by the ANC in regard to the idea that South Africa consisted of two separate economies were, first, that the two economies 'do not necessarily respond to the same economic stimuli', and, second, that during the first decade of democracy the government was forced to focus on the first economy rather than the second. This was so, the ANC executive argued, because without a strong first economy 'it would not have been possible for us to find the resources to develop the Second, except by borrowing these resources and thus building an unsustainable national debt'.[1] However, due to the successes achieved with regard to the first economy, it would now be possible, during South Africa's second decade of freedom, to devote more attention and resources to the second economy. The way in which this would occur was outlined in the following slightly cryptic and contradictory statement: '... without reducing our focus on the First Economy, during the Second Decade we must pay special attention to the transformation of the Second Economy.'[2]

The central idea is therefore that policies that have allowed the first economy to grow would be maintained, but far more attention would now be devoted to special interventions that would alleviate the plight of the second economy. The government views the first economy as modern, wealthy, containing world-class infrastructure and banking systems, and integrated into the global economy. The second economy, by contrast, incorporates the poorest of the urban and rural poor, is 'characterised by underdevelopment' and is marginalised in its relationship to both the local modern economy and the global economy as a whole.[3]

According to a presentation produced by the president's office, the second economy is a product of colonialism and apartheid. Both these systems deliberately created economic divisions in the country so that businesses would have access to landless, propertyless, and rightless cheap labour. However, when the economy within these systems underwent a structural transformation that persists today, the people who had been forced into the cheap labour role were no longer required. They were consequently left behind in the areas and unfortunate circumstances into which the apartheid system had forced them.[4]

All of these circumstances have become worse as the South African economy has continued to develop and modernise. It has shifted away from being dominated by the primary mining and agricultural sectors that required cheap, unskilled labour, towards being based on the secondary manufacturing and service sectors, which rely predominantly on machines and highly skilled white-collar workers. There is no place in this world for those who were deliberately created to serve a less modern economy. The second economy, therefore, consists of those who have been doubly victimised, first by apartheid and then by globalisation.

The second economy is therefore regarded as a product of past injustices and present economic trends. It cannot therefore benefit from market-based strategies. Such strategies are not able to provide the restitution that the people of the second economy need to become equal players in the present economic system, nor can they address the marginalisation from which the second economy suffers in the globalised world. On the face of it, then, the two-economies approach provides the justification for large-scale redistribution and for major state-led development initiatives aimed specifically at the second economy. In terms of this vision, development would become more directly the responsibility of the state, and welfare transfers would be significantly expanded.

There is, however, considerable ambiguity within the state about exactly how far it should take the logic of its two-economies discourse. This stems firstly from a lack of clarity on what kinds of policies are needed to keep the first economy on track, and secondly from disagreement over whether the aim of policy should be to transform the second economy, or to help people trapped in the second economy to move into the first.

The president's 2004 state of the nation speech reflects this ambiguity. In that address he made it clear that the focus of government policy was now firmly on the 'struggle against poverty and underdevelopment' but, when providing a more detailed list of policy priorities, he mentioned first that the government will 'focus on the growth, development and modernisation of the First Economy', and then that it would also 'respond to the challenges posed by the Second Economy'.[5] He went on to explain that there were, in fact, three elements of the government's fight against poverty, namely: finding ways to increase the rate at which the first economy created jobs; implementing special programmes, such as the extended public works programme, aimed exclusively at the second economy; and 'building a social security net to meet the objective of poverty alleviation'.[6]

The emphasis of recent statements has been on the government's intention to transform the second economy so that it becomes part of, or indistinguishable from, the first economy as soon as possible.[7] How the two economies will become linked is, however, unclear. Trevor Manuel, in his November 2003 budget speech to the national assembly, argued that the issue was to 'bridge the divide between the First and the Second economies that is still such a pervasive feature of our society'.[8] Mbeki, by contrast, in an address to the national council of provinces, explained that the aim should be 'to extricate millions of our people from the second economy'.[9] A presentation made by members of the president's office explains that 'different strategies are needed for the two economies', and that the second economy needs to be somehow 'transformed'.[10] There appear, therefore, to be multiple and shifting ways of thinking at work here. This leads logically to multiple ways to tackle the problem.

An additional imperative of the new vision is that the state takes responsibility for development and therefore abandons its concern with letting the market generate growth and jobs. On this issue there is, again, a great deal of ambiguity. An international experience that has, according to government officials themselves, influenced the new policy direction is the EU's endorsement of state-run interventions in less developed areas. Although government officials recognise that we cannot meet the scale of the EU initiatives, they feel the EU precedent confirms that it is now the state's responsibility to intervene where the market fails. Consequently, those in the first economy must accept that they will be required to make 'injections' into the second economy. Further, a new phase in reconstruction and development is needed to push back the frontiers of poverty.[11] These statements suggest that, under the influence of EU thinking and other imperatives, the ANC government is moving towards a more statist developmental approach. This perception is reinforced by the following statement by the national executive committee on the 92nd anniversary of the ANC, issued on 8 January 2004:

> As we begin our Second Decade of Liberation, we commit ourselves to do everything possible to push back the frontiers of poverty and expand access to a better life for all, to realise the people centred progress we have to achieve. Contrary to the perspectives advanced by the neo-liberal forces about small government and absolute reliance on market forces, it is perfectly obvious that the tasks of our developmental state are growing in extent and complexity.[12]

However, the notion that this will lead to a radical change in the government's policy direction is contradicted by the continuing commitment, especially within the treasury, to fiscal constraint and sound macroeconomic fundamentals. The president also remains determined not to resort to debt financing. As he explained last year, Zimbabwe made the mistake of choosing to 'live now and pay later', which got them into debt and their present fiscal problems, whereas we will finance 'our social and economic upliftment with our own resources'.[13]

The shift towards greater government intervention in the economy must also be seen as a relatively gradual process, which began right at the beginning of Mbeki's presidency. For example, in 2001 the president spelled out South Africa's development strategy in the following terms:

> We have to achieve high and sustained rates of economic growth. We have to conduct a sustained and successful offensive against the widespread and endemic poverty in our country. We must make visible progress in reducing the socioeconomic disparities that continue to scar and characterise our society. No reasonable person in our country will disagree with any of these three propositions. Neither will anybody contest the fact that they are interconnected and are dependent one on the other.[14]
>
> Apart from the stress on the interconnectedness of the three processes mentioned, a stress that has been weakened by the adoption of the two-economies approach, this developmental vision is broadly the same as the one being advocated at the moment.

Clearly, the two-economies concept does not represent a startlingly new development, nor does it signal a radical shift in ideological conviction within the presidency and the ANC. It is, however, a product of the growing pressure that the government feels to do something far reaching to address the poverty and inequality that persists in the country. It may also represent a convenient way to make sense of ANC policy up to this point. In the final analysis, what the adoption of the vision effectively means is that, despite ongoing attempts to strengthen the performance and growth of the first economy, the government explicitly does not accept that markets can solve the problems and marginalisation of the poor. It is thus putting itself under increasing pressure to do something to help the millions of South Africans who can be defined as such. If markets cannot help the poor, then the government must take responsibility for improving their lives, either by developing them or by giving them handouts. The following sections examine what development and welfare policy trends have emerged in this ideological context.

THE DIRECTION OF WELFARE POLICY

Despite the entrenchment of citizen's rights to 'adequate social security' in the post-1994 constitution, the first moves to implement changes in regard to welfare transfers were to limit the size of the child support grant. The initial 'child maintenance grant' that the department of welfare inherited from the apartheid regime was generous, but had not been granted to Africans. In order to avoid the costs of universalising this grant the government appointed a commission of enquiry in 1996. This commission recommended, in keeping with the cautious fiscal approach advocated by the recently adopted GEAR strategy, that the original grants should be replaced by means-tested child support grants, which would no longer be restricted to particular racial groups, but would also be set at a much lower level.

These developments, which in the eyes of many were a direct result of GEAR replacing the more poverty-oriented reconstruction and development programme (RDP), produced widespread opposition from non-governmental organisations (NGOs), left-wing political movements, and the Congress of South African Trade Unions (COSATU). COSATU was essentially responsible for introducing the idea of a basic income grant (BIG) into the public discourse. In 2001 the organisation joined with other NGOs and church movements to call for a 'people's budget' that would include an amount of between R100 and R200 provided by the state to all South African citizens every month. The following year a committee of enquiry into a comprehensive system of social security for South Africa, under the leadership of the University of Cape Town's Vivienne Taylor, in effect recommended that the government should implement a BIG. There were, however, two aspects of the so-called Taylor Report's recommendations that softened the call. The first was the recognition that it would be a costly and difficult exercise to develop the capacity that would allow government to transfer a basic monthly income to all South Africans. The committee recommended that the grant should only be implemented in a few years' time, after the government had set up the bureaucracy and the technology necessary for a smoothly functioning BIG. Secondly, the committee was prevented by the department of finance from exploring the cost implications of the scheme. As one member pointed out, this placed the committee in an awkward position.[15] It also meant that the department of finance would have the final say about the feasibility of BIG. As it turned out, the department decided the programme was not viable because of the large increase in welfare spending that it implied. The department estimated that the BIG would increase the tax burden by about R60 billion a year.[16]

Thus, the direction towards greater state responsibility for the poor suggested by the two-economies approach was reflected in the movement towards BIG. However, in the end the treasury and, presumably, the presidency felt that this was too drastic a policy change as it threatened to overturn the macroeconomic stability achieved through GEAR. Instead, the government opted to extend the existing policies of the department of social development. This department, in terms of its own philosophy, was anyway opposed to providing the kinds of general handouts implied by BIG.[17]

The objectives that the department of social development has formulated for the medium term to fulfil its mission can be placed into three categories. They are, firstly, the protection and potential empowerment of groups that, through no fault of their own, cannot help themselves. These include children, the elderly, the disabled, and, perhaps to a lesser extent, women. Secondly, the aim is to promote development in poor areas. Thirdly, the department is determined to focus on enhancing the effectiveness of its performance. There is recognition, both at the level of the national leadership and within the department, that the elimination of inefficient and corrupt practices can lead to a real improvement in welfare without it leading to major increases in costs.[18]

In following these imperatives the department of social welfare has focused, since 2002, on improving the way funds are administered, and has entered into partnerships with faith-based organisations and other civil society organisations to identify and bring into the realm of the relevant welfare programmes as many beneficiaries as possible. These initiatives led to a rapid increase in grant beneficiaries during the period 2002/3. There was a 22,6 per cent increase in the number of beneficiaries, from 4,4 million in April 2002 to 5,8 million in April 2003. This was also boosted by the huge increase in the number of children who received the child support grant. The number expanded by 62,5 per cent during this period. In total, about R28 billion was spent on social grants.[19] A more detailed breakdown of the changes, going back to 2000, is contained in the following table.

Table 1: Number of beneficiaries per grant type

Type of Grant	April 2000	April 2001	April 2002	April 2003	April 2004
Old Age	1 848 726	1 882 188	1 936 553	2 009 419	2 060 421
Disability	607 537	631 758	714 019	953 965	1 270 964
Care dependency	22 789	30 269	42 474	58 140	77 934
Foster care	49 843	61 268	90 680	138 763	200 340
Child support	348 532	1 078 884	1 574 927	2 630 826	4 309 772
Parent allow.	144 870	296	0	–	–
Child allow.	193 772	153 114	0	–	–
War veterans	7 908	6 062	5 324	4 594	3 961
Grant in aid	8 570	9 715	10 840	12 787	18 170
Total	3 232 547	3 853 554	4 374 817	5 808 494	7 941 562
Rate of Increase		19%	14%	33%	37%

Source: Department of social development, Annual report 2002–2003, 39.

The table shows that, while some programmes have remained stable or have gone into decline, there has been a substantial expansion of the benefits provided by the old age and child support programmes. This is especially true of the latter, which now produces the largest number of welfare grants provided by the government. By the end of November 2003 there were 3,9 million children receiving the grant of R160 per child, and it has been estimated that the number is set to increase further by approximately 3,2 million children as the qualifying age for these grants is extended up to the age of 14 over a three-year period. This year, children under 11 years old were to be registered for the grants. These projections also confirm that the high increases between 2002–3 and 2003–4 (of 33 and 37 per cent respectively) are set to continue during the next few years.

Between April 2000 and April 2003, the number of foster care grants increased by 88 920, or 178 per cent. Growth in the number of care dependency grants has also been rapid. The department feels that the increasing number of people infected and affected by HIV/AIDS will lead to a growing number of orphans and critically ill people requiring support. The strong growth in these grants will consequently continue.

The department has declared itself committed to tackling poverty through an integrated sustainable development strategy. As part of this strategy the department continued, in 2003, to implement its poverty relief programme, allocating R100 million to support 416 new projects. These projects targeted people with disabilities, people affected by HIV/AIDS, and unemployed rural women. To help in these project-based endeavours, the department benefited from the implementation of the UN's Second Country programme. In terms of this, R72 million will be disbursed between 2003 and 2005. The largest aspect of the department's attempts to overcome poverty is contained in the national food emergency scheme.

The programme emerged out of initiatives launched in 2002 to provide food emergency relief to households who were adversely affected by the rapid rise in food prices at the time.

This emergency initiative then developed into a more general food security programme that had achieved the following by March 2003:

- the distribution of food parcels to 10 000 households during the pilot/emergency phase;
- the start of the national roll-out of the new, entrenched programme which aims to reach 244 000 households identified as suffering from severe food insecurity; and
- the promotion of an intra-departmental collective effort to ensure effective delivery of the food parcels.[20]

The department admits to having 'staff capacity constraints', but there still appear to have been major improvements in the way finances were managed in 2003. Firstly, the department managed in 2002/3 to spend almost its entire budget allocation (98,3 per cent was spent). This was very uncommon in the 1990s. During the same year, the department submitted annual financial statements for all relief funds on time for the first time. Further, a shareholder compact was signed between the chairperson of the National Development Agency (NDA) and the minister of social development. The compact provides a framework that will regulate the relationship between the department and the NDA and, it is hoped, prevent previous forms of abuse and confusion. Unfortunately, the new relationship did not get off to an entirely satisfactory start as the NDA failed to produce its audited financial statements in time for the 2003 review.

In order to increase equitable access to grants, improve service delivery, and reduce the cost of social grant administration, the department initiated the establishment of the SA Social Security Agency (SASSA). This will replace the current system of disbursing pensions, the so-called Socpen system, with a centralised agency that will largely take over much of the administration from the provinces. The agency will be capable of ensuring that standards and the quality of service delivery are enhanced, and should eliminate some of the corruption that remains entrenched at the local levels of administration. The total estimated cost of the project is R300 million. The project was initiated on 28 May 2004 and the agency was intended to be operational by March 2005.[21] In the meantime, continuing efforts have been under way to reduce the cycle time for processing applications. With only a small increase in the number of people employed, a record of more than 1 million applications were processed in 2003.[22]

From these details one can see that the department has recently become more proactive, both in extending the cover and reach of welfare, and in improving its general performance. It has extended its welfare transfers and services, while building on existing structures and previous experiences. There has been a particularly rapid expansion of pension and child support disbursement, but the commitment to 'developing the poor' has not yet risen far above the level of rhetoric. The interventions undertaken in this regard consist primarily of support for an assortment of 'projects'. The officials at the department speak the language of integrated development, but have not articulated specific ways of tying their interventions to those undertaken within the ambit of the integrated rural development strategy (IRDS).

The department of social development is clearly committed to helping the poor more extensively and more effectively than in the past. It is therefore meeting the requirements of the two-economies approach by doing more than before for those trapped in the second economy. At the same time, however, the department is trying to meet its brief in a more efficient, cost-effective way and there is very little likelihood that it will shift over to a more comprehensive or radical approach, such as the proposed BIG. While this should be seen in a positive light, and as an outcome of the ambiguity within the two-economies approach, it is nevertheless important to assess whether this policy direction is really transforming South Africa for the better. This will be done below by examining the impact policies are having on poverty, taxation trends, government expenditure patterns, and state capacity.

NEW STATE-LED DEVELOPMENT INITIATIVES: THE EXPANDED PUBLIC WORKS PROGRAMME

The major new development initiative of the two-economies era is the expanded public works programme (EPWP). As the name suggests, this programme builds on existing initiatives undertaken by the department of public works to provide infrastructure to, and create jobs in, disadvantaged, mostly rural, areas. The previous community-based public works programme invested more than R2,5 billion in the Limpopo, KwaZulu-Natal, Eastern Cape, Mpumulanga, Free State, and North West provinces. This expenditure resulted in the establishment of more than 4 000 community infrastructure projects, and the creation of more than 163 000 job opportunities. Forty eight per cent of these jobs went to women, and 30 per cent went to young adults. The EPWP, which emerged out of the Growth and Development Summit, hopes to improve significantly on these results by requiring provinces and municipalities to build a portion of their infrastructure using labour-intensive construction methods. The departments of minerals and energy, and of housing have also committed themselves to using labour-intensive techniques in some of their projects. In the case of existing programmes under the control of the departments of environmental affairs and tourism, water affairs, and forestry and agriculture, there have been attempts to find ways of expanding, improving, and integrating these programmes in order to ensure increased employment creation and outputs.

There are essentially four ways in which the EPWP will tackle the 'underdevelopment of the second economy'.[23] Firstly, the programme will create the jobs in disadvantaged areas that the market has failed to create. Secondly, it will finance the construction of infrastructure in deprived areas which will promote development and allow the second economy to become more integrated with the first. Thirdly, it will provide training programmes that will turn 'unemployable workers' into employable ones. In this respect the department aims less to transform the second economy, and more to help as many people as possible to get out of it. Lastly, the programme will operate to promote black economic empowerment (BEE) by awarding contracts to black-owned construction companies.

The department of public works, under the leadership of Stella Sigcau, sees itself as 'an integral part of the developmental state' and tasks itself with the ambitious objective of creating 'an environment that is conducive to the total transformation of the country from apartheid to prosperity'.[24] The vision behind the EPWP, furthermore, is the optimistic one of reversing the process of 'jobless growth'. In terms of this vision, the market-based economy generates growth, but no jobs. If the government's target of halving unemployment by 2014 is to be achieved, it is up to the EPWP to create jobs where the market failed. According to the department's calculations this means that 546 000 new jobs would have to be created each year, which is 276 000 more jobs than have been created without the EPWP. This is believed to be an achievable goal, as the department promises that the EPWP will create 5 million job opportunities over the next five years.

The second way in which the EPWP will reverse the process of jobless growth is through the provision of skills and training to the unemployed. The idea is that obtaining employment on a public works programme will imbue the recipient with experience and skills, and will be linked to various learnership programmes. Employers involved in the projects will be required to provide training to those that they hire to work on the projects. In this way, the department believes, the fundamental barrier to job creation can be overcome. In their opinion, the barrier is 'nothing but the inability of our people to take up the opportunities in the job market'. Thus the jobs are being created, but people in the second economy cannot access them because they do not have the skills. The EPWP will provide these skills, and thereby eradicate the major cause of unemployment in South Africa. In these ways, the EPWP represents 'government's responsiveness to our people's call for a state-led intervention in unemployment and poverty'.[25]

The budgetary implications of this programme do not go significantly beyond the expansion of infrastructure expenditures that were launched by the treasury in 2002. The idea is that the EPWP will feed primarily into existing budgets, and will create jobs by providing funding only to those departments and those contractors who undertake to build infrastructure in a labour-intensive way. In the words of the minister of public works, Stella Sigcau:

> The money to achieve all this is available and is found in the budgets of national departments, provincial governments and local municipalities. Both provinces and municipalities will also benefit from the conditional infrastructure grants allocated to them to support their capital budgets for infrastructure development, including upgrading. An amount of R45 billion in conditional grants has been made available for the coming five years. EPWP has successfully requested that a portion of that money (precisely R15 billion) be used to fund projects and programmes with a propensity to open up more jobs through use of labour-based technologies in development and upgrading.[26]

A major issue within the programme is what kind of wage will be paid to the employees. This issue is related partly to targeting the programme at the poorest of the poor, and partly to the recognition that the decision to hire labour rather than capital is influenced by the relative prices of the two inputs. It has been recognised that prevailing minimum wage levels will attract many of the not-so-poor in disadvantaged areas, and will act as a disincentive to use labour rather than capital. The easiest solution to both these problems would be to let the market set the wage. In this way the wage will settle at just above the reservation wage of the poorest of the poor in any given area, and will therefore attract only those who really need EPWP jobs. At the same time, such wages will attract employers into the programme and make it worth their while to hire labour instead of capital.

However, despite recognising that government-determined wage rates represent a problem, the policy makers are not prepared to now place their faith in markets. Nor are they prepared to go so directly against the interests of COSATU. Instead, the wages will be set via a formula that leads to rates below the minimum wage, but still significantly higher than the wages that are actually being paid in the areas where the EPWP is being implemented.

Vital for the effective implementation of the EPWP will be training the people involved in both tendering and evaluating tenders, so that there is clarity and competence in the implementation of these projects. The major problem in this regard is that the programme depends on initiatives undertaken by under-skilled and under-resourced local governments. This has been recognised by minister Stella Sigcau. As she put it:

> The greatest challenge, henceforth, is to mobilise all municipalities, provincial departments and other public sector bodies to implement the programme. I would like to take this opportunity to call on all MECs and councillors to become activists for the EPWP in their organisations, and to ensure that their organisation use their expenditure to create as many work opportunities as possible. This is the only way that the EPWP can become big enough to have the impact on unemployment and training we are looking for.[27]

This process, on which the success of the EPWP hinges, will clearly not be a simple task. It will require competent and effective monitoring and evaluation by the department of public works and it will require strong, centralised leadership and advocacy.

THE IMPACT OF THE NEW POLICY DIRECTION

The full impact of the new policy direction cannot now be assessed as it has not yet been wholly implemented. However, there are many initial indications providing clues about the direction in which we are heading. We can furthermore deduce some of the impact through our understanding of poverty, fiscal policy, and government capacity in South Africa.

Poverty

Poverty is massive and needs to be addressed urgently. In order to understand welfare's and the EPWP's impact on this pressing problem it is important to know what keeps poor people poor. One way to determine this is to see which factors are most closely associated with poverty. Among the strongest associations is the one between poverty and education. According to Woolard and Leibbrandt 'there is a very strong correlation between educational attainment and standard of living'.[28] What is interesting, however, is that in terms of the likelihood of being poor there is only a small difference between those who have no education and those that have only a primary school education. This suggests that primary education in South Africa provides very little chance of entry into the formal job market. But higher levels of education are crucial in reducing the likelihood of poverty. The importance of education levels in determining standards of living is recognised by the poor themselves. In 1997 participatory rural appraisal (PRA)-based interviews with the poor, the respondents consistently listed education as one of the inputs they most needed to lift themselves out of poverty. They understood, furthermore, that they needed this education to gain access to better employment opportunities.

One problem with the correlation between poverty and low levels of education is the direction of causality. There are strong indications that a lack of education determines poverty, but there are also factors at work that, independent of the disbursements provided by the state, make it likely that poor people will receive less education than wealthier people. The ability to absorb the opportunity cost of education is difficult for poor households, which are also less likely to contain a culture of learning, and cannot afford the additional resources required to promote learning outside the school. It is therefore often an insurmountable challenge for poor people to obtain the education they need to escape from poverty.

The issue of two-way causality is also pronounced in the correlation between poverty and health indicators. Poor people cannot afford the same level of health care that wealthier people can, but poor health can also affect the ability to find a job, and the productivity that is a central determinant of income levels. Researchers have found that, despite some serious measurement problems, poverty is correlated with poor health and high rates of mental disability.[29] Poorer people suffer disproportionately from tuberculosis, diarrhoea, and fever. It is also the unsurprising case that poor children suffer from much higher rates of chronic under-nutrition. According to Woolard and Leibbrandt's calculations, 38 per cent of ultra-poor children below the age of five suffer from stunting. Such children are permanently disadvantaged by poverty.

Lack of access to quality services also interacts with poverty, as well as with health. Particularly important in this respect is ready access to clean water. The poor suffer disproportionately from water-borne diseases such as cholera. Access to cleaner, safer water would ensure that the poor would become both healthier and more productive. In addition, the poor (especially females) must commit large amounts of their time to obtaining water and firewood. If they had access to better water and heating services, the poor could devote this time to child-care or income-generating activities. The poor are also forced to devote a large proportion of their incomes to transport, which raises their cost of living and reduces their take-home pay.

Woolard and Leibbrandt point out that the most fundamental factor determining poverty in South Africa is the inability of poor people to access either any wage-generating jobs or the kinds of jobs that generate sufficient income to raise households above the poverty line. In their words 'poor households are characterised by a lack of wage income, either as a result of unemployment or of low paid jobs'.[30] Unemployment is almost certainly the central issue affecting poverty rates in South Africa, and it is a phenomenon that has generally been getting worse during the past ten years.[31]

In this situation, where vicious circles forge poor education, poor health, and distorted labour markets to one another, thereby creating powerful poverty traps, both welfare transfers and government-provided jobs play a vital, but ultimately limited role. They help people cope with poverty but can do little to overcome poverty itself. In the terms of economists, the government transfers reduce the poverty gap but cannot lift significant numbers of people above the poverty line.

Providing people with jobs is a crucial first step in breaking the poverty trap, but the problem with the idea that the EPWP will provide all of the necessary jobs is that this is wildly over-optimistic. Firstly, the programme will not create nearly enough jobs to make a significant dent in poverty. Secondly, it will create temporary, rather than permanent jobs. And, thirdly, there is no indication that a job on a public works programme will create any improved access to the existing labour market. Anna McCord, the country's leading expert on public works programmes, has pointed this out.[32] As she put it, '… the public works programme aims to create 200 000 jobs a year, but they are temporary jobs. Unemployment levels are between 5 million and 8 million, so the impact of the public works programme will be limited.' Despite the prevailing optimism in the department of public works, officials at the provincial level have been more realistic about the EPWP's impact. The premier of KwaZulu-Natal, S'bu Ndebele, pointed out that if 'we are to meet government's goal of halving unemployment … then we will have to create well in excess of one million new jobs' in KwaZulu-Natal alone.[33] Ndebele also indicated that this made it imperative that 'job seekers who enter EPWP must exit it better equipped to find work elsewhere'. But this is unlikely to be the case. Labour-intensive jobs are, by their nature, relatively unskilled and not conducive to intensive learning-by-doing processes. Even if EPWP workers do acquire some skills, these are likely to be the kinds of skills of which our society has an abundance – bricklaying, plumbing, painting – rather than skills of which there is a dire shortage – computer literacy, mathematical comprehension, analytical competence.

All of this makes welfare transfers crucial in the fight against poverty. But a number of studies confirm that, despite their extensive nature, the pension and child support grants administered by the department of social development only alleviate and do not significantly reduce poverty. Anne Case and Angus Deaton have assessed a nationally representative survey on the impact of pension transfers in South Africa.[34] They found that the pension is an effective tool of redistribution, and the households it reaches are predominantly poor. This is confirmed by the table below, which was compiled by Van der Berg and Burger and shows the extent to which pensioners are being covered by government transfers.[35] This table reveals that the extensive coverage identified for 1993 by Case and Deaton has improved even further in the 21st century.

Table 2: Coverage of old age pensions[38]

	1980	1993	2000	2000 (adjusted)
Blacks	58,3%	89,5%	84,9%	99,0%
Coloureds	70,2%	84,9%	79,2%	92,4%
Indians	66,6%	61,5%	72,9%	85,1%
Whites	38,6%	20,3%	29,1%	34,0%
TOTAL	40,5%	69,4%	73,5%	85,7%

In addition, Case and Deaton discovered that the pensions not only reached households in which children lived, but they also disproportionately reached children in poverty. The pension therefore often benefits two of the deserving groups included in the department of social development's aims, and therefore complements the child support grant. Ardington and Lund argue that pensions represent a reliable source of income which leads to greater security and enables households to enter into, and even create, credit markets, which further contributes to food security.[36] The pensions are particularly effective in those very remote and extremely poor regions where there are almost no other institutions providing or generating any other cash income. The pensions do therefore change the capacity of poor households somewhat, but not enough to substantially transform the circumstances in which they live.

These findings are supported by the work of Breslin, Delius, and Madrid.[37] By using a PRA research methodology they found that access to pensions was crucial in keeping households away from absolute destitution. However, they also found that pension payouts are too small to be used in meaningful economic upliftment, and that there is a lot of tension and conflict over who controls the pensions income within pension households. These households have often become larger than average as a means to allow younger generations to gain access to pension payouts, and this has then led to growing inter-generational tension about who should control the pension and how the money should be spent. The people Breslin, Delius, and Madrid interviewed also reported that pension officials were generally corrupt and that the value of pensions was declining.[39]

Analysis by Case, Hosegood, and Lund of a survey conducted in the Umkhanyakude district of KwaZulu-Natal reveals that the child support grant is performing in similar ways to the pension.[40] They found that 36 per cent of all children under the age of seven had some contact with the child support grant system, with no difference in contact for boys and girls. Between 80 and 90 per cent of children aged one through six who had been put into contact with the system were receiving a grant in 2002. The authors conclude that the grant reaching a third of the eligible children in this remote rural area, half of whom received a grant within three months, showing 'a real commitment to implementation'. The authors also found that the grant was essentially targeted at the very poor, as the households who received it tended overwhelmingly to own fewer assets generally and have fewer luxury items in particular. Tellingly, the authors argue that this is due less to the effectiveness of the means testing mechanism and due more to a form of self-selection. Better-off primary care givers are not bothering to go through the application process because of the modest size of the cash transfer. Although the authors conclude that it is too early to address questions of impact, the previous insight suggests that the impact is likely to be relatively limited, although still crucial for very poor households.

The indirect recognition by Case, Hosegood, and Lund that the child support grant of R160 per child is low enough to be significant only to the poorest household has led more critical advocates to argue that the amount is inadequate to meet the basic needs of the child.[41] In addition, the small amount is usually distributed throughout poor households to feed the whole family, which further restricts the few benefits available to the child. These advocates of a higher and more inclusive grant, however, concur with Case et al that the low level of the grant means that many potential beneficiaries do not believe that the administrative hurdles they have to face are worth the effort.[42]

The situation, then, is that welfare policies are helping but not transforming poverty. The problem is that as these kinds of interventions are being extended, they are leading to more and more resources being devoted to helping the poor, which leaves fewer resources available for the vital task of transforming poverty. Devoting increasing amounts of resources to a problem that is not getting better is, clearly, not sustainable. That this dilemma is emerging fairly rapidly can be ascertained from the way current policies are impacting on tax rates and budget deficits.

TAXES AND BUDGETS

Simkins provides projections on the extent to which welfare expenditures will increase over the next ten years.[43] On the assumption that real incomes among the old will remain constant, and that the current welfare programme will remain unchanged, his conservative estimate is that the level of welfare expenditure will rise (in constant prices) from R26,8 billion in 2002 to R41,7 billion by 2012. This would constitute a 55 per cent increase, which would have to be financed from somewhere. Some money could be transferred from other departments, from the military budget, for example, but this is unlikely to be significant. Departments such as defence, which had the political clout to obtain the funding for the arms deal in the first place, are unlikely to voluntarily concede to reducing their budget share in favour of welfare. This means that, in the absence of significant economic expansion, the bulk of the required additional revenue will have to be generated through additional taxation or larger budget deficits.

Many of these effects are emerging already. In October, 2004, it was reported that, whereas social grants constituted 2 per cent of GDP in 2000, the figure was now fast approaching 4 per cent. The treasury ascertained that South Africa now spends more on welfare, and covers a larger proportion of the population, than any other developing country. As a result, the minister of finance, rather reluctantly, decided to let the deficit rise to 3,5 per cent in 2005/6 before reverting to 3,2 per cent in 2006/7, and 2,7 per cent thereafter. Manuel decided to opt for increasing the deficit while still undertaking growth-inducing expenditures on infrastructure because debt-servicing costs were under control, which made the rise affordable as long as it did not become permanent. However, the expansion of welfare expenditures, driven particularly by the rise in foster-care and disability grants, is clearly putting pressure on the budget. It is forcing cuts in crucial areas and is threatening to lead to higher taxes for both present and future generations. The extent of this pressure may have been alleviated somewhat by the recent discovery that the economy is larger and growing more rapidly than previously thought. The general trends, however, remain unchanged and are a continuing cause for concern.

The minister of finance, for one, has expressed deep concern about these trends and has admitted that welfare expenditure is placing severe strain on his plan to stimulate the economy through infrastructure spending, which includes vital spending on hospitals as well as roads. More disturbing still is the trend at the provincial level, where education spending is being reduced in favour of welfare. Seven out of the nine provinces overspent on their welfare budgets last year, despite receiving additional funds from the treasury in mid-year. Consequently, the provinces had to abandon their plan to spend 41 per cent of their budgets on education. As a result of the rising cost of welfare, they have slashed their education targets to 36 per cent. Welfare's share of the provincial budget has risen from the intended 18 per cent to 21,5 per cent. This represents a trade off between short term objectives and long term growth. All of these developments are happening at a time when tax returns have moved from the previous higher than expected levels to significantly below expectations. The additional revenue that has been generated through more effective tax-collecting methods will from now be coming in at a declining rate and, according to André Roux, the revenue forecast for this year will probably be R3 billion less than expected as a result of the fall in company profits.[44]

Those supporters of expanding the welfare system, who feel that South Africa can absorb a tax increase because rates are below some of the levels that exist in social democratic countries, are ignoring a number of crucial factors.[45] Apart from the fact that many of the countries with high tax rates may be facing serious economic problems as a result of these rates, it is also important to remember that, in the words of Nattrass and Seekings, South Africa already redistributes more through the fiscus than any other developing country and, perhaps most importantly, that the top two income quintiles in this country pay 80 per cent of all taxes, with the top quintile paying 94 per cent of all income taxes. It is true that the burden has been slightly alleviated through tax relief during the past few years. But reversing this trend and putting an additional squeeze on middle-income households will surely have serious repercussions. Further, while tax relief measures have led to declines in the proportion that income tax contributes to total tax revenue, the share of VAT has increased.[46] As Gelb (2004) shows, most of this tax relief has been converted into consumption, which means that middle-income households are almost certainly paying more VAT than previously.[47]

Whatever the exact nature of the current trends, it is clear that higher tax rates are a serious cause for concern. Thurlow has run simulations on the effects of moving to a more costly welfare system by means of four financing options.[48] These are financing through increased indirect commodity taxes, financing through increased personal and corporate tax rates, financing though decreased government consumption spending, and tackling the problem through a financing package, which imagines a scenario where the impact of the grant is spread evenly over sales and income taxes, and government consumption spending.[49] For the personal and corporate tax option, Thurlow estimates that the tax rate would have to increase by 4,4 percentage points, which would, in turn, lead to a decrease in investment spending by 3,5 per cent. Thurlow's general conclusions are that the various financing options would, if used in isolation, 'place significant pressure on the various institutions within the economy'. If a more balanced financing package were developed, sales and direct tax rates would increase by 1,3 and 1,5 percentage points respectively, and government consumption expenditure would be reduced by 7 per cent. This scenario would, in Thurlow's words, 'be more politically and economically feasible', but he believes that there would still be 'a significant and negative impact on various areas of the South African macro-economy'.[50] In all of Thurlow's scenarios increasing welfare expenditures lead to a significant decline in the growth prospects of the country.

STATE CAPACITY

In the area of state capacity there is much that is positive about recent developments, but there are, at the same time, areas of serious concern. The department of social development is doing the right thing by seeking to build on its experiences and to strengthen areas of significant weakness, especially at the provincial level. This is one of the factors that makes the present directions in welfare policy preferable to the implementation of BIG, which would represent a radical shift in direction and disrupt the processes of learning-by-doing the department is currently benefiting from. Nevertheless, it remains the case that the department, by its own admission, suffers from capacity deficits while seeking to achieve a task – the significant reduction of poverty – that cannot be solved in isolation from other transformative processes.

A very similar situation prevails within the department of public works. This department is again building on previous experiences, and a lot of care has been taken to limit the extent of the EPWP in such a way that it does not require huge amounts of additional administrative capacity. Nevertheless, as pointed out above, the successful implementation of the programme requires effective and clear monitoring processes, as well as strong leadership. The second issue appears to be a particular cause for concern, as MPs recently questioned whether Stella Sigcau and her department would be able to implement the EPWP.[51] The extent of this criticism may have been exaggerated by reporters, and the ANC has subsequently closed ranks around the minister, but there is undoubtedly a feeling, even within the ANC itself, that Sigcau lacks the dynamism and strength required for the EPWP to be a success. The problem in both departments is, therefore, that more and more is expected of them in terms of the two-economies logic, when at best they can only gradually build up the internal capacity they need now for the tasks they are undertaking.

AN ANALYSIS OF CURRENT WELFARE AND DEVELOPMENT DIRECTIONS

The policy emphasis within government is on welfare rather than growth, and on state-centred rather than market-led solutions to poverty. It is not the case that government is rushing unhesitatingly down this road. There are many byways and alleys within the broader approach and not all the elements within the state are plotting exactly the same course. However, this is the current emphasis and as such it raises a number of concerns. These are outlined below, but at the outset it must be said that we are not proposing that we should have growth instead of welfare, or markets instead of the state. Instead, we need to emphasise market-led growth and let welfare expenditures feed into a virtuous circle driven by poverty-transforming development strategies. Secondly, we need state interventions that promote, rather than replace, markets in poor areas.

Emphasising growth rather than welfare

Our analysis of the impact of current welfare trends on poverty makes growth an absolutely vital necessity if the government and the system as a whole are to avoid facing serious pressure over the next ten years. Growth will ensure fewer welfare claimants and produce a larger income pool to tax. The higher the growth, the less dire Simkins's figures, which are based on the assumption that there will be zero per capita growth over the next ten years, will become. Per capita growth during the past ten years has averaged at 0,8 per cent, and there is no reason why this cannot be sustained over the next ten years. A more hopeful scenario would, however, be for per capita to increase at a faster rate than this, in which case the crunch scenario that Simkins predicts would definitely be avoided.

Growth is also essential for achieving one of the central aims of welfare: the reduction of poverty. Some advocates of an expanded welfare system, citing recent international literature, have argued that redistribution will deal more effectively than growth with poverty.[52] There is also a fairly well-established view among economists that redistribution will promote rather than hinder growth.[53] What this literature assumes, however, is that poor households will use their new resources to increase savings, undertake new investments, and expand demand for locally produced goods to such an extent that it will compensate for the negative consequences of taxing and restricting the well-off. In scenarios where the middle class is already heavily taxed, and where poverty is as extensive and extreme as in South Africa, this optimism about the growth-inducing effects of redistribution seems misplaced. Redistribution can reinforce growth when there are already strong growth tendencies ingrained within the economy, but redistribution cannot work in the absence of broader growth processes. In a country where entrepreneurs and owners of capital are already being squeezed at so many levels, the notion that the effects of more squeezing will be overcome by the magic bullet of more demand emanating from the poor seems grossly idealistic. Welfare and redistribution are very important in our society, but they are already happening at levels that the system and, importantly, the capacity of the state can barely sustain.

We have seen that poverty is a trap because of the vicious cycles in which poor people find themselves. Education is crucial for moving out of poverty but it is much harder for poor people to obtain a decent education. Likewise, poor health increases the likelihood of poverty, while poverty makes it much harder to stay or get healthy. The government can help, but it has neither the capacity nor the resources to transform the situation in a significant way. Throwing money at the problem may therefore do little to transform the underlying conditions that created the poverty in the first place. Welfare transfers may, therefore, only create an increasing number of slightly better-off dependents of the state. Such a situation is unsustainable.

The only way to transform poverty in South Africa is to tackle it on many fronts, and this can only be achieved if the country is growing, poor people are gaining increasing access to formal sector jobs, and the state is gradually building up its capacity, both financially and administratively, to provide more and, especially, better education, services, and security. None of this can happen overnight, and it most importantly requires the private sector (the first economy) to produce higher growth and more jobs than is currently the case.

Emphasising markets rather than the state

In terms of the development approach encapsulated in the concept of South Africa's two economies, the government has committed itself to delivering state-directed solutions for the poor and has rejected the idea that markets can help the poor. This is essentially predicated on the notion that markets happen in the absence of state interventions, and that such interventions are always an alternative to, never a complement for, market-based developments. This perspective ignores the ways in which some state-led interventions prevent the market from operating, and, more importantly, how other interventions are necessary for the effective working of markets. Thus the government consistently fails to acknowledge the extent to which its interventions prevent labour markets from creating jobs, even though there has been a tacit acknowledgement of this within the EPWP. In some ways, the EPWP can be seen as an attempt by the government to create the lower-wage jobs that the same government's labour-market policies are actively preventing. The government's present development approach also fails to acknowledge or discuss the ways in which government could strengthen property rights, mitigate externalities, provide infrastructure, and build up capacity so that markets work more effectively and provide greater opportunities for the poor. Rather than seeking to replace markets, the government should be doing much more to encourage them.

BUILDING CAPACITY THROUGH MARKETS

By encouraging the development of markets, the state would benefit further by indirectly strengthening its own capacity. States always become more effective within functional and dynamic economic systems, as these increase the pressure for efficiency and decrease the desire for corruption. By seeking to extend its developmental role because of a loss of faith in markets, our state is instead over-reaching and undermining its capacity. In this area, as in all the others, the government has misplaced its emphasis. Instead of first promoting growth and market-led development, and then seeking to ensure that these processes work in favour of reducing poverty and strengthening state capacity, they have put the cart before the horse.

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