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Special Issue:

Spesiale Uitgawe

The Economic Debate

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Investment Analysts Society of Southern Africa

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The following firms have, in addition to our advertisers, assisted in the financing of this issue of the journal and thanks are due to them for their kindness.

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Nelson Mandela*

Options for building an economic future†

Mr Chairman, Ladies and Gentlemen:

First of all, we would like to thank the Consultative Business Movement most sincerely for taking the initiative to convene what is for us a truly historic conference. The mere fact that it is taking place sends an important signal about the need for all South Africans to get together to determine the destiny of our common fatherland.

Fully conscious of the fact that all of you are very busy people, we would also like to extend our appreciation to all of you that abandoned some of your programmes so that you could attend the conference.

Recently I had occasion to read an advertisement inserted in the British Press by the Anglo American Corporation. It begins by quoting various clauses of the Freedom Charter, which have to do with job-creation, and the provision of food, housing and education. It then poses the very important and correct question – "If the South African economy doesn't deliver, how can any politician hope to?"

That, in a sense, encapsulates the significance of this conference. Both of us, you representing the business world and we a political movement, must deliver. The critical questions are whether we can in fact act together and whether it is possible for either one of us to deliver, if we cannot or will not co-operate.

We hope that the fact that we are meeting here signifies that there is a common acceptance among us that we necessarily must co-operate to ensure that the people do indeed enjoy a decent standard of living in conditions of freedom.

To establish a system of co-operation requires that we should at least share some common objectives. But it also means that we have to overcome the mutual mistrust that, to some degree, undoubtedly exists between us. We do not have to elaborate the reasons for that mistrust. As South Africans we all know what they are. We know that they emanate from the fact that on one side of the street are the haves, and on the other, the have-nots; on one side, the whites, and on the other, the blacks.

The interaction that is taking place among us today – and hopefully, in other encounters in future – should help in the process of identifying the common objectives which should become part of a national consensus that will help to bridge the enormous gulfs that separate the different communities in this country. As we discuss, we hope that some of the mistrust will fall away. But, of course, it will be in the process of the honest implementation of what would have been agreed that this mistrust would finally disappear.

You will, I am certain, remember the nursery rhyme:

"Baa! Baa! black sheep,
have you any wool?
Yes sir, yes sir,
three bags full.
One for the master,
one for the dame,
one for the little boy,
who lives down the lane."

Could it be that when the children composed this simple verse, they understood that it was only the figurative black sheep that would, because it was itself excluded, have sufficient a sense of justice and compassion to remember the little boy down the lane! Was it because they had seen in practice, that the white sheep apportioned only a tenth of its wool, or none at all, to the little boy down the lane?

Many a time the martingales and deprived people whom we represent have posed the same bitter questions that Shylock posed in Shakespeare's *Merchant of Venice*.

"Hath not a Jew eyes? Hath not a Jew hands, organs, dimensions, senses, affections, passions? Fed with the same food, hurt with the same weapons, subject to the same diseases, healed by the same means, warmed and cooled by the same winter and summer, as a Christian is? If you prick us, do we not bleed? If you tickle us, do we not laugh? If you poison us, do we not die? And if you wrong us, shall we not revenge? If we are like you in the rest, we will resemble you in that . . . the villainy you teach me, I will execute; and it shall go hard, but I will better the instruction."

Questions such as these, whether about black sheep or the universal nature of human pain and suffering, can only be posed by people who are discriminated against, in a society that condemns them to persistent deprivation of the material artefacts and the dignity that are due to them as human beings. We pose them for the same reasons.

The bitterness of a Shylock, who threatens to execute and even better the villainy which his persecutors have taught him by their example, is a feeling that comes naturally to those who are hurt by systematic and systemic abuse. It should come as no surprise that it lurks in the breasts of many whom this society has considered and treated as disposable cyphers.

The issue we are addressing is the one of power and the uses and abuses of power. Those among us who are white come from that section of our population that has power, and in a sense, total power over the lives of the black people. Nothing within the sphere of human endeavour is expected – be it political, economic, military, educational or any other. Indeed, this even extends to the right to decide who shall live and who shall die.

These may sound like harsh words, but the reality that is unseen inside the boardrooms, by those who exercise power, across the length and breadth of this country, is harsher still. The anger in the heart of Shylock is abroad in our society. This is a fact to which we should be very sensitive, without any attempt at self-deception.

One of the fundamental issues that the process of transformation must address is the question of the structure of power. Within the political sphere what has to be done seems clear enough. I think we would all agree that we must have a united, democratic and non-racial South Africa. The specific manner in which this would be expressed in a constitution is something that will have to be negotiated, preferably within an elected constituent assembly.

I think we would also all agree that every adult citizen should have the right to vote and to be elected into an organ of government. There should be an entrenched and justiciable bill of rights, which should guarantee the fundamental human rights of all citizens.

People should be free to form or to belong to parties of their choice. There should be regular elections so that the people

* Deputy President of the African National Congress
† An address to the Carlton Conference, "Business and the ANC", convened by the Consultative Business Movement, 23 May 1990.

decide who should be in the driving seat. Power should devolve to lower organs of government so as to ensure the broadest participation of the people in the democratic process.

I would like to believe that on these and other political matters we are in agreement. Such an outcome is important both in itself and in order to create a situation of peace and stability. We should all accept fully that the economy cannot deliver unless the political objectives we have outlined are realised.

All this of course, addresses the issue of the structure of political power. We are saying it must change radically. The cause of our discontent is, in part, our exclusion from the exercise of political power and our consequent condemnation to a situation of being the victims of the abuse of power. The inclusion of all the people of South Africa within a genuinely democratic system will therefore remove this particular cause of our discontent.

But then, what about economic power? This, obviously, is one of the thorniest issues that must be addressed. It is said that less than ten corporate conglomerates control almost 90 per cent of the shares listed on the Johannesburg Stock Exchange. If somebody did any arithmetical calculation, he or she would probably find that the total number of people who sit on the boards of these companies as directors, is far less than one thousand. These will almost exclusively be white males. If you add to this the fact that 87 per cent of the land is, by law, white owned and is in fact owned by a minority even among the whites, then the iniquity of the system we have all inherited becomes even more plain.

If we are genuinely interested in ending the old social order and bringing in a new one characterised by the notions of justice and equity, it is quite obvious that the economic power relations represented by the reality of the excessive concentration of power in a few white hands have to change. We make this demand not as a result of any imperative that might be said to derive from ideological convictions. We make it because we cannot see how it would be possible to pull our country out of the endemic crisis, in part caused and exemplified by white control of economic power while, at the same time, we perpetuate this power structure.

It might be said that international experience shows that it is wisest not to tamper with this power structure. The argument is made that the sanctity of private property and the incentive and dynamism that derive from private ownership should convince all of us to accept, if not welcome, this economic power structure as a fact of life. What we would like to say is that, while we look at economic models and study the experiences of other countries, we should not forget that we are dealing with South Africa, with its own history, its own reality and its own imperatives. One of these imperatives is to end white domination in all its forms, to deracialise the exercise of economic power.

If we are agreed about this objective as it affects the economy, then, I trust, we can begin a serious discussion about how it should be achieved. It would seem to me necessary that this discussion, vigorous though it has to be, should not be conducted in a manner which makes healthy debate impossible. We would therefore have to avoid throwing epithets at one another, questioning one another's capacity to think or challenging one another's good faith.

Today, I am not going to present any argument about nationalisation. I would however like to share a secret with you. The view that the only words in the economic vocabulary that the ANC knows are Nationalisation and Redistribution is mistaken. There are many issues we shall have to consider as we discuss the question of the democratisation and deracialisation of economic power.

One of these is whether we should not draw on such lessons as we might learn from the anti-trust laws of the United States or the work of the Monopolies Commission in Great Britain to address the issue of how to ensure that there is no unhealthy over-concentration of economic power. The application of those lessons would of course have to take into account the economic realities of our own country which might dictate various optimal sizes for different firms.

The factors that would have to be considered would include the necessity to achieve economies of scale, the capacity to generate the necessary critical mass of investible funds, the strength to compete successfully on the international markets, the ability to participate in serious research and development, and so on.

Another issue we might have to consider is the advisability or otherwise of the placement on the boards of privately owned companies of directors appointed by the Government, to see whether it is possible to balance the pursuit of private gain with the need to promote the common good.

I would also like to stress that we do not want to have everything done by the new government. A healthy relationship between employers and trade unions is crucial to the country's future. We agree with the view that progressive labour legislation, allowing strong unions to carry out centralised bargaining, will help to solve many important issues. The questions of a living wage, job security and industrial restructuring must be dealt with in the bargaining process.

Yet another question we might consider is whether there are no areas in which it would benefit society at large if the State established public corporations or strengthened existing ones. One of these areas might be housing, where it seems clear that there is an urgent need for vigorous State intervention rapidly to expand the country's stock of habitable accommodation. Another area is suggested by the need for State encouragement of small and medium business as well as the co-operative sector, especially as there is a crying need for the multiplication of economic activities that will lead to the creation of new jobs.

We might mention, at this point, that we are firmly opposed to the process of privatisation on which the Government has embarked. It seems to us eminently wrong for the Government to engage in this important restructuring exercise precisely at the moment when the whole country and the world expect that fundamental political change is in the offing. It would seem only reasonable that so important a question as the disposal of public property should be held over until a truly representative government is in place. Additionally and inevitably, the process of privatisation cannot but reinforce the economic power relations which we assert have to be changed.

As we have said, the land question must also be addressed within the context of the restructuring of the old economic power relations. Recent State actions to sell State land and to evict people from white farms are entirely unhelpful to these purposes. Before anything else is done, the racist and discriminatory Land Acts have to be repealed. Furthermore, serious discussions and planning must take place involving the rural people and their representatives, the democratic government, those who own land and the country as a whole so that we can all address the related issues of making land available to the land-hungry masses, while ensuring the necessary increases in the production of food and agricultural raw materials.

We still believe that there must be further discussion of the issue of nationalisation of assets that might at the moment be privately owned. The ANC has no blueprint that decrees that these or other assets will be nationalised, or that such nationalisation would take this or the other form. But we do say that this option should also be part of the ongoing debate, subject to critical analysis as any other and viewed in the context of the realities of South African society. It should not be ruled out of the court of discussion simply because of previous bad experience or because of a theological commitment to the principle of private property.

We are very conscious of the critical importance of such matters as the confidence in the future of both the national and the international business communities and investors. We accept that both these sectors are very important to the process of the further development of our economy. We can therefore have no desire to go out of our way to bash them and to undermine or weaken their confidence in the safety of their property and the assurance of a fair return on their investment. But we believe that they too must be sensitive to the fact that any democratic government will have to respond to the justified popular concern about the grossly unequal distribution of economic power.

There should be no debate among us about the centrality of the issue of ensuring a rapidly growing economy. To ensure a rising standard of living, the gross domestic product must grow at rates that are higher than the rate of growth of the population. Various figures have been thrown around about the possible and desirable rates of growth. This conference will obviously not have the possibility to look at these figures and to study their macro-economic implications.

But, of course, the issues, about which I am sure we are agreed, of the need to generate significant domestic savings, to attract substantial foreign investment and to keep the rate of inflation reasonably low, are central to the discussion of the question of economic growth. Perhaps there are only three or four points we should raise at this stage.

One of these is that we are concerned at persistent reports that some of our own domestic companies have been and are involved in a process of exporting capital from this country. We cannot sit here, verbally welcome the prospect of democratic transformation, talk of the need rapidly to develop the economy, and at the same time reduce the means that would make such development actually possible.

The second point is that it is important that we should stop propagating the gloomy picture of a South Africa that, as it is said, will inevitably sink into the economic crisis that afflicts many African countries.

The third is that it seems obvious that the democratic parliament together with the public at large should elaborate a macro-economic indicative national plan to provide a framework within which to determine the directions of growth policy. We are saying, in other words, that the process of growth cannot be left to develop spontaneously because it would ineluctably result in structural distortions and imbalances which have to be corrected.

In this connection we should all accept the reality that growth by itself will not ensure equity. A situation could develop in which, in terms of levels of income, we continue to have a persistent gap between the haves and the have-nots, despite any increases that may take place in the standard of living of the latter.

I am therefore raising the question that the matter of the redistribution of wealth in conditions of a growing economy, is one that must be faced squarely and addressed firmly. I am sure it is common cause among us that the very fact of an expanding market, resulting from the process of wealth reaching those who were formerly deprived, is itself a condition for and an engine of economic growth.

We are of course all concerned about the need generally to raise the level of education of all our people and in particular rapidly to increase the numbers of black engineers, technicians, artisans and other skilled persons. This would of course make a decisive contribution to the critical issue of the level of productivity in the economy as a whole. It would also place the issue of the relative and absolute increase of income accruing to the black section of our population within the context of expanding national wealth, in whose expansion they would have played an important part.

The penultimate issue we wish to raise is the matter of public spending. There can be no doubt that the public finances will come under enormous pressure for increased spending in education, housing, health, unemployment benefits, pensions and so on. It should be commonly agreed among us that the democratic State must indeed have a responsibility to provide this material cushion, at least to protect the most disadvantaged.

Certainly the present-day apartheid absurdity must be addressed whereby public per capita social spending on the whites is at least six times higher than on Africans. However complicated the economics may be of bridging this gap and instituting a rational system of social welfare which actually increases social welfare, something will have to be done in this area as a matter of urgency. Indeed we could say that even now, as we enter a period of transition, it might be necessary to establish mechanisms by which those who have been excluded from power play a role in determining the disbursement of public funds.

The concerns that have been raised with regard to the capacity of the tax base to carry a vastly increased State budget are of course important and legitimate, but in a situation of rapid economic growth such as we have spoken of, it would be necessary to review the system of taxation. The aim would be to reduce the burden of direct and indirect taxation on sections of the community least capable of looking after themselves, and to shift more of the load on to the corporate sector without, of course, producing a situation of diminishing returns.

But obviously enormous savings will be made as a result of the abolition of the multi-headed hydra represented by the various apartheid administrative structures. Defence spending will also have to be reduced radically as a result of the thinning down of the defence establishment, a process which must also lead to the conversion of military production facilities to civilian needs.

We would also be of the view that we should build a State system which does not seek to administer the lives of people as though they were wards of the State. The situation should therefore be fought against in which there would be a bloated and unproductive civil service.

The democratic project in which we are all interested cannot succeed unless the economy can deliver. The reality is that the economy is in a terrible crisis. Unemployment is increasing. Black employment is the same now as it was ten years ago. The rate of investment in fixed capital is decreasing. Inflation is high. There is no prospect of getting out of the morass while the apartheid system of white minority rule remains in place.

The international community would like to come back as an interested participant in the creation of a society which can serve as an example in terms of the solution of the race question and the institution of a healthy system of race relations. For us to be able to persuade the world that it must invest in South Africa, that it must extend aid to us, that it should agree on a Marshall Aid plan, we must be able to report to the nations that white minority domination is no more.

We must also report that all the people of South Africa are working at the building of a national consensus which will ensure that never again will our country be torn apart by the criminal divisions which the apartheid system imposed on all our people.

In the direct interest of the lives of all our people this system must go now. None of us can afford a delay which will lead to the further destruction of the economy and the heightening of social tensions and conflict. We believe you have as much an obligation as we have to bend every effort to ensure a democratic political system is instituted without delay.

The effort to build the new means that we abandon the old. The Nationalist Party, responding to the failure of its grand design, is taking the first steps in the process of abandoning apartheid ideology. This change in our overall reality has made it possible for us all to move towards a just political settlement.

We need the same transformation in the economic sphere. You, as businessmen and women, have the obligation to engage in this process. I hope that you are able to abandon old ideas and think about the future in new terms. Once such ideas are born, we know that you will have the courage to act on them.

In this manner, we could begin to shape our economic and political destiny in the interest of justice, peace and progress. We trust that you will consider this carefully and reflect on the question – what are you prepared to do for your country, rather than what your country can do for you.

We thank you for your attention. We hope that what we have said might assist in the process of building a national consensus of the direction we have to choose in order to end the agony of apartheid and racism, of poverty and deprivation, of internal conflict and international isolation.

The people who are dying in Natal, the injured of Welkom, the people who are being evicted from the farms in the Western Transvaal, the millions of unemployed in the towns, cities and the countryside demand a solution. All of us present here have an obligation to use the levers of power and influence we hold in our hands to ensure that the new day dawns now.

Gavin Relly*

Options for building an economic future†

"THERE SHALL BE AN ECONOMIC ORDER THAT SHALL PROMOTE AND ADVANCE THE WELL-BEING OF ALL SOUTH AFRICANS" Harare Declaration, August 1989

1. Introduction

That the economic imbalances in South Africa are enormous is common cause. I think that there are few if any businessmen in South Africa who do not accept that the normal socio-economic problems of a modernising, urbanising society have been considerably exacerbated by the apartheid system under which we have laboured so long, and that this poses a particular challenge as we look to creating economic structures and policies which will lead both to rapid economic growth and more equitable distribution of wealth.

Even if it were desirable, which I don't think it is, I cannot dwell in this paper on the real inequities of the past, beyond acknowledging that they are there and that we all have our historical responsibilities. The future begins today and it is a more promising day than any day in the last five, ten or fifty years, offering great opportunity if we are forward looking, constructive and co-operative in approach.

2. Common economic goals

Now the business community remains predominantly driven by the individual/competitive values which are key elements in the mainstream of Western society – individual freedom, responsibility and enterprise to name just a few. However, other groups observe matters from a tradition, both cultural and intellectual, which has stressed, if it can be codified, what one might call group/co-operative or even egalitarian/collectivist values. It is important to recognise these differences and the different assumptions that they have led to in the past, since much of the confusion in the debate about South Africa's economic future has been caused by participants talking past each other.

This confusion and the heat and passion that have accompanied it may suggest to an outsider that the participants have nothing in common with one another and the hopes they have of a future economy are incompatible. In fact the intensity and often highly generalised and abstract nature of the debate has so far obscured the fact that most South Africans and most (if not all) of us here in this room have common goals, common hopes and aspirations, for the country's economic future.

We are united by a vision of a South Africa where there is:-

- A growing economy capable of generating the resources to address socio-economic need
- A strong, diversified economy which creates more wealth by competing successfully in international markets and attracting foreign investment
- Meaningful, productive economic opportunities for all South Africans to share in wealth creation
- A more equitable distribution of resources
- The elimination of racial imbalances in the economy through equal opportunity
- Growing national and individual prosperity, i.e. improved standards of living
- Freedom for all to promote their own interests as workers, consumers and creators of wealth
- Effective strategies to combat proverty and under-development

We in business are dedicated to debate and discussion on the options so that we can build a common economic future. What the debate should really be about therefore is the means to the above ends and the circumstances in which they may be more readily secured. In other words, what road should we follow to reach this desired economic future?

In the debate about our economic options we have fortunately progressed away from the crudities of a capitalism versus socialism dogfight to a recognition that, as with all other societies in the world, we have today and will have in future a mixed economy. The interest is in the details of the mix.

3. South Africa's resource base

We learnt at school that the economic cost of doing one thing was the cost of not doing something else. And since economics is all about choice and scarce resources, I believe that a necessary departure point is a frank recognition of the endowment with which we start our endeavours. South Africa is – contrary to popular myth – not a rich country, but a relatively small developing country with a proportionately small economy, despite its mineral resources. In the gold mining industry, which is our main earner of foreign exchange, grades are low, depth of extraction extreme and in current circumstances profitability meagre.

Nor are we yet a nation vitalised by common purpose or informed by widespread and appropriate education, so our human resources have a very narrow base as matters stand at the moment.

According to World Bank figures, South Africa's GDP per capita of about $2 000 puts it ahead of Malaysia and Mexico but behind Poland, the Lebanon, Brazil and Uruguay and it is instructive to note how in the past five years South Africa has slipped from the category of upper middle income developing countries to lower middle income developing countries. That is a function of GDP only growing at 1,5 per cent per annum in the 1980s whilst population grew by almost twice that figure and Gross Domestic Fixed Investment declined by 3,6 per cent. Indeed, as we are coming to realise, we probably need a growth of well over 5 per cent to enable us to bring higher standards of living to our swiftly increasing population and to properly address our social imbalances. I will talk later of the important qualitative elements of that growth, that is how we organise the economy and its participants to get growth.

South Africa is a more open economy than many others internationally – in recent years exports of goods and services have on average amounted to some 30 per cent of GDP. It has an even greater need than is the case for other countries therefore to compete internationally and to stay abreast of international developments.

What I am attempting to do with this no doubt unwelcome reminder of the limitation of our resources is, in the words of

* Executive Director, Anglo American Corporation
† An address to the Carlton Conference, "Business and the ANC", convened by the Consultative Business Movement, 23 May 1990.

People can only share your enthusiasm for private enterprise when they have a share in it.

Two of the 142 000 employees who have been brought into the wealth creation process through share ownership in Anglo.

A person with a share in the future of South Africa is a person who will make sure that South Africa has a future.

Belief in this philosophy was one of the reasons why we introduced a shareholder scheme for our employees in December 1987.

Another reason was to foster a feeling of belonging, of common goals and aspirations.

To date, 73% of our eligible employees have opted to share in our belief in private enterprise, a percentage representing 142 000 people. People with a stake in the long-term growth and dividend performance of the Corporation, and of the country.

Employee and shareholder. The difference between working for a company and working with a company within a strong, stable private enterprise economy.

AAC

ANGLO AMERICAN CORPORATION OF SOUTH AFRICA the aphorism, to remind us all that the only way to squeeze a quart out of a pint pot is to turn the pint pot into a quart pot.

4. The fundamental requirements for economic growth

Given the inequalities in South Africa and the political and economic need to address these urgently whilst maximising growth (remembering our common goals) we have to confront the old problem of the trade-off between equality and growth. Where to strike the balance? I believe that economic growth is a necessary but not sufficient condition for a reduction in absolute poverty and for a reduction in inequality.

The other decisive factor is the kind of growth rather than the rate itself. This emphasises the need to get the mix right – the tax system, the efficiency and manner in which we deploy tax revenue, the country's legal and institutional framework, the need for a predominantly market-based pricing system, the encouragement of investment, etc. etc. Of course, these latter things include the role of the State as coach, referee or arbiter rather than player, and specific redistributional actions, but they all have to be consistent with the first criterion – generating economic growth.

Those who allegedly advocate an undifferentiated or pure free market approach to economic management are criticised on the grounds that this does not ensure that the benefits of growth "trickle down" at all or sufficiently fast to the disadvantaged. However, there is now overwhelming evidence from around the world that the interventionist or dirigiste alternative which these critics propose does not achieve these ends either but on the contrary causes a great deal of economic damage. The evidence points to the need for a carefully balanced combination of appropriate State and private sector roles, which I shall outline below.

The reason why South Africa has had a poor record of investment in the 1980s is precisely because the policies pursued by the State then were inappropriate in both scope and nature and so distorted the market. To apartheid legislation was added a wide array of controls via such mechanisms as administered prices, marketing boards, exchange controls and an expanding public sector, as well as a reliance on inflation to expand nominal government revenues.

Because factors of production were not priced according to relative scarcity, distortion took place. To this of course was added the external environment – (and one must never forget the importance of the international context, what economists call exogenous factors) – with a much less hospitable world economy, sanctions and a poorly performing gold price.

This unhappy story raises the question of what business sees as the fundamental requirements for growth.

(i) Confidence

First and foremost we in the corporate sector believe that the retention of domestic and international investor confidence is critical to economic growth. Whilst the criteria for such confidence, including the levels of State participation in the economy may vary from country to country, the universal experience is that if investors conclude that State intervention and regulation stifle initiative, entrepreneurial activity and the ability to make profit, then capital and skills flight will ensure.

Renewed foreign capital inflows – in contrast to the capital outflow which is now taking place on a significant scale – are vital to the kind of economic growth that will allow South Africa to successfully tackle her development agenda. As with other developing countries, we simply cannot provide sufficient savings ourselves to finance investment.

You might recall the late Gerhard de Kock's three scenarios: the first where capital outflow continues at rates of the recent past (4 per cent of GDP) for the next ten years, which limits our growth to 2 per cent per annum; the second where there is no capital inflow or outflow, where growth is 3 per cent; and thirdly where capital inflow is 4 per cent of GDP which we have attained in the past where growth then is in the 4-5 per cent per annum range. Of course these figures are derived from historical relationships – combined with better economic and political management, the results may be even better.

As the rest of the world increasingly turns from Africa because of preoccupations elsewhere, South Africa has the potential to emerge as the African country capable of attracting capital either for its own development or for projects in neighbouring countries under proper management control.

As far as private capital is concerned, just as the market may be said to have taken a view of South Africa in 1985 and responded with bank loans being called in and disinvestment, so too the market (and I don't just mean the JSE) takes a view about the talk of nationalisation and reacts with great rapidity.

(ii) Market-orientated system

The State has an important role in distributing or redistributing resources for reasons of equity as mentioned above through transfer payments from one tax payer to another (for pensions, subsidies and interests on public debt) and through government spending (health, education, low cost housing etc). A balanced tax system provides the wherewithal for this distribution. But for business a market-orientated system is required for optimal investment and resource allocation decisions. This requires, inter alia, market related interest rates, i.e. higher than inflation, which would help job creation and discourage excessive capital intensiveness; market-related wage rates with productivity being an important variable; market-related and certainly not overvalued exchange rates as has been the case with so many African and South American countries; the open trading system required by the global village; and free capital flows with the goal being the relaxation and ultimate abolition of exchange controls.

Recent events in Eastern Europe and Africa have endorsed the message on these scores, a message which the World Bank has consistently stated over the years.

(iii) Size of government

Thirdly, the corporate sector believes in the light of general international experience that the size of government is critical to the well-being of the economy. One of the major factors leading to changed economic policies on the part of the government was the realisation in the late 1980s that the country could no longer afford a bureaucracy of the current size without serious inflationary implications and the continued decline in infrastructural investment in favour of non-productive consumption expenditure. Clearly the lifting of sanctions and the abolition of apartheid ought to provide some relief, but a firm control on the size of the bureaucracy will remain desirable.

(iv) Inflation

If these three guidelines are followed in economic policies, then the key issue of inflation should also be satisfactorily addressed. Unless inflation continues to be targeted as an economic priority, the differential between South Africa's high inflation rate of 15 per cent and those of her major trading partners of 4-5 per cent will lead to a vicious circle of inflationary pressures as South Africa tries to juggle the need to keep exports competitive with the inability to sustain higher import costs.

(v) Work ethic

The above policies taken together with the abolition of apartheid will also provide an environment conducive to a new work ethic, without which required economic growth gains cannot be made.

5. Nationalisation

There is no short cut to development yet, in a sense, nationalisation is proposed by some in our economic debate precisely as one of the elements of such a short cut. Of course it has its emotional attractions, given the acts of omission and commission of the past. It also has attractions in power and patronage terms as being a vehicle likely to provide for the faithful. But it is most often adduced as a provider of resources for the State to undertake essential social programmes and to steer formerly private sector investment in a direction which planners believe will be more socially useful.

By now most of the audience will be familiar with the difficulties of regarding nationalised industries as likely sources of new or enhanced revenue for a post-apartheid State – one of our Chairmen today, Ken Maxwell, in an illuminating illustration of the value added by the mining industry published in the *Sowetan* of the 11th April showed the dangers of tipping that industry quickly into a subsidy-consuming state by trying to extract greater resources from it:

He pointed out that during 1989:

1. 33 per cent of the revenue earned from gold sales was paid in wages
2. 39 per cent was paid to suppliers of stores, materials and services required to produce gold
3. 15 per cent was spent on capital expenditure items to keep the mines going
4. 8 per cent went to taxation and lease payments
5. That left 5 per cent for the shareholders which meant that they earned a 3,2 per cent return on the market capitalisation of all the gold mines. This hardly leaves scope for additional State earnings unless shareholders are to be deprived of all returns. And a diminution of return means the certain end of risk-taking necessary for exploration and the development of new mines, without which the industry will gradually wither away.

6. Tax as a revenue raising and distributing mechanism

Instead of contemplating mechanisms such as nationalisation, the private sector should be seen as the source of wealth and job creation, with the budget acting as an allocator of resources raised through the taxation system. All countries use tax as a redistributive mechanism. Collective bargaining is another widely practised redistributive mechanism, but administered prices, marketing controls, inflation and a growing public sector are now seen as having unacceptable costs as redistributive mechanisms and the undesirable propensity to favour elites rather than the broad mass of people in whose name they are undertaken.

Before I return to tax, I should say a few words about land reform which is necessary to give more equitable access to land. Clearly some proactive policies will be needed in addition to the abolition of the Group Areas and Land Acts. But history has shown that land reform benefits societies only when it achieves a transfer of ownership of unutilised or underutilised land from absentee landlords or the State to efficient peasant proprietors. The worst thing than can be done is to transfer efficiently farmed land to inefficient peasant cultivators or worse, to inefficient collectives. Part of a considered approach to land reform will be State assistance to peasant cultivators, but also, of course, full compensation to previous private owners – all of this guided by the principle of available resources. It's worth bearing in mind that only 15 per cent of South Africa's land is classified as arable.

To return to tax, the international trend is towards the development of more efficient tax systems which nurture rather than discourage the development of the advanced, formal sectors of the economy. Part of this strategy involves the avoidance of an excessive tax burden, which would not only inhibit domestically based entrepreneurial and productive potential, but also discourage the inflow of foreign capital.

It is important that the participants in the current debate should fully appreciate the ultimate purpose of this strategy. Although it involves the reduction of certain tax rates, to the extent that it resuscitates economic activity it will, of course, result in an expansion of the overall tax base and generate more revenue in total for deployment by government on socio-economic priorities rather than less. Paradoxically, less tax in some areas will lead to more government revenue in total, provided this is combined with effective economic management in other respects.

Perhaps I should stress at this stage that this is not an argument in favour of the extreme supply-side notions which were fashionable in the United States and elsewhere some years ago, but rather an apeal to recognise that the tax system in this country has become particularly distorted in recent years and there is an urgent need to establish a more effective balance for the sake of all South Africans, not least the poor.

As I am sure you know, the South African tax base is both narrow and heavily taxed. This has resulted in the position that in 1988 over 60 per cent of total individual income tax came from 380 000 people, less than 1,3 per cent of the total population. South Africa, previously regarded as a low tax country, now has one of the highest effective tax burdens in the world. It is clear that we have to increase the size of the economic cake by stimulating business activity. Worldwide trends indicate that the following will contribute to this goal:

- A wider tax base (in terms of both number of people paying tax and the range of business activity taxed)
- Lower nominal income tax rates
- An increased emphasis on indirect tax

7. An inappropriate growth strategy

It is noteworthy how little attention is given by some participants in the economic debate to the core problem of inflation. Perhaps this is because the inevitable result of policies proposed without regard to limited resources is hyperinflation of a South American kind.

A prime example of this kind of misconceived economics is a dirigiste model which proposes a rapid change from what some have described, in my view somewhat inaccurately, as a high-cost, low-wage structure to a low-cost, high-wage structure in the South African economy as a means of boosting domestic manufacturing industry and consumption, thereby spreading wealth and stimulating economic growth. This version of inward industrialisation ignores two key elements of Jan Lombard's original proposition – including the important export dimension (which will of course require continuing capital-intensive investment for some industries) and the necessity of developing domestic markets off a competitive wage foundation.

The outcome of such a distorted version of inward industrialisation, if it were to be attempted without concomitant gains in productivity, would be a massive boost to inflation more than negating any benefits achieved. And higher productivity begs the question of the shortage of skills and the need to engage in sustained programmes of workplace-oriented education and training.

If this sounds excessively negative, the answer is not to throw up one's hands, but to say that prioritising productivity gains by accelerating political change, allocating greater resources of all kinds from State, trade union and employer sources to appropriate education and training and devising a range of participatory schemes to give workers a greater sense of engagement and "ownership", will be the precursors to the ability to pay higher wages, to reduce costs, to achieve more equitable wealth distribution and to generally move up the development ladder. Much responsibility rests with business here and I will address its obligations in another section.

8. Privatisation

Now the current government is making an effort not only to address most of these five points in appropriate economic policies, but also to reallocate expenditure through the Budget so as to make an attempt to address the inequalities of which we are all so conscious. Government's R3 billion fund is only a modest start, but one should accept that prior to that a slow but real reallocation of spending in some areas like education had been put in hand.

Yet the goals are being pursued by a State which retains a strong role despite privatisation and deregulation. The debate about privatisation has highlighted the need to prioritise and clarify intentions. It is necessary to emphasise that basic social services must continue to be provided by the State for the needy and in fact should be extended for those categories as resources become available. On the other hand the de facto moving of some sectors of health and education into the private sector where the wealthier can pay for services, is a sort of transfer payment relieving the State of a burden in a resource-limited society and enabling it to fulfil its obligations to the disadvantaged. Indeed the rationale for privatisation in that context is to provide resources for expenditure on social services which would otherwise not be provided because of resource constraints. So business on the whole remains in favour of privatising those businesses in the State sector with a bottom line, though there are difficult cases like transport and Eskom which need far more debate and investigation.

9. Co-operative values and strategies

All this leads me to conclude that business and political movements will both have to seek a new set of jointly held values which will enable them to co-operatively confront the challenges of building an economic future. Such a set of values will have to share elements of individualism, competitiveness, consensus, co-operation and social conscience.

The world does provide us with some models here. West Germany, France and Japan offer examples of concerted free enterprise where the harmonisation of economic objectives within the business community, and the degree of consultation between business, government and sometimes labour leaders allows the government to evolve national economic objectives and priorities without resorting to imperative or coercive planning or administrative as opposed to budgetary allocation of resources.

A caveat must as usual be entered here. These are highly evolved systems which have crucial ingredients requiring close scrutiny. Inter alia these are:-

- Governments that see their main role as facilitation as opposed to regulation or control
- Economic interest groups (business, labour, consumer) that are broad-based, well-organised, all playing to the rules of the game and conscious of national interests
- Well-designed and well-used consultative processes
- Competent, dedicated and enduring administrative elites, modest in size

Further, such systems were evolved during periods of sustained economic growth, and showed most signs of strain during periods of recession. The lesson is obvious – a growing economy helps bypass the zero sum game mentality and promotes co-operative strategies.

There is not too much difference between West Germany and social democracy as practised in a country like Sweden. This system also has its interest for us, with a social compact between government, labour and business which leaves a prominent and highly competitive big-business sector to create wealth and the State to go further than Germany as the conscious distributor of wealth in an elaborate social security system. But it is important to note that decades of growth preceded the introduction of such a social security system (Sweden's GDP per capita is almost eight times South Africa's at $15 500) and that Sweden has in the 1980s run into trouble, requiring an adjustment of the balance away from equity towards efficiency, inter alia involving lowering of tax rates, reduction in the bureaucracy and the restoration of other individual incentives.

Another model that is often mentioned in the South African debate is South Korea. Again caution is required. There was indeed an active State role in the direction of the economy – a feature that enthusiasts of central planning have lighted on – but it took place in a particular environment: a highly autocratic government that was virulently anti-union and pro-business and big business in particular, and which relied on the cultural homogeneity and Confucian traditions of discipline, respect for authority, and value for education to persuade the populace to defer consumption in favour of investment, i.e. not having it so good now in order to have it better in the future.

During the 60s and 70s therefore, Korea was a low wage, increasingly skilled economy in which productivity rose rapidly. But also to be noted, it was the slide into excessive State intervention and protection in the 1970s to build up heavy industry which had serious distorting effects and which tendencies were completely abandoned in the 1980s. Indeed privatisation of nationalised enterprises, including banks, is now being effected.

Not only is the State sector in South Africa therefore set to remain significant, but given the reforms of government economic policies sketched above, a more co-operative relationship has developed between government and business in the economic arena (just as I believe a more co-operative relationship between business and the unions is developing, to which I will refer below).

This has not yet reached the levels of indicative planning of the West European societies mentioned above, but the Economic Advisory Committee plays a more important role today than in the past and there is broad discussion over many areas of national economic concern and I think that is good and should be continued in the new South Africa if the basic preconditions set out above continue to be met.

I have considered some ways in which existing resources can be allocated and new resources created through growth. What we need now to do is to anticipate the dividend which will hopefully flow from apartheid's demise so there is more than just a once-off investment at some point in the hopefully near future.

Lifting sanctions, abolishing apartheid, ending violence and creating a climate of stability will help end the haemorrhaging of our capital lifeblood and will encourage the flow of new capital. The earlier we take these steps the greater the manoeuvrability of government in the new South Africa.

In fact these steps are urgently needed now to help leadership in government and other political movements consolidate their constituencies and address – at least to a minimum degree – expectations, though this does not relieve leadership on all sides from the burden of directing expectations to a more realistic level. The economy currently is in a recessionary period and that clearly is not the optimal environment for expensive political change.

Business will do its part in helping to clear the road ahead by underpinning its social commitment and commitment to a new South Africa but an expanding economy will allow the business role full play, and flexibility and innovation can then be afforded. Every extra 1 per cent growth will contribute enormously – between R2,5 and R3 billion in today's terms – to public and private-sector resources and allow sustained programmes to tackle basic needs. The State will be able to meet its responsibilities to the needy if the economy is growing, and greater numbers will be drawn into the opportunities being created for individuals to take charge of their own lives.

We need to start now by making investment in our future. A refurbishment of the entire educational system with the accent on appropriate curricula preparing pupils for employment opportunities in the modern economy will be the best form of sustained redistribution of wealth.

But all have to take responsibility in order to enjoy freedom: children must return to school, teachers teach, parents be involved, and politicians support. And it is clear that such responsibility will not be promoted by centralisation except at curriculum and standard setting levels.

10. Business programmes for a new South Africa

Given the appropriate policy framework, there are exciting opportunities for jointly tackling problems. I will confine myself to dealing at any length with the trade union area, but in question time more could be said about creating a better economic future through co-operation with emerging business, contracting out, share-ownership schemes, and education and training more broadly.

(i) Trade Unions

Let me start with trade unions. I believe that we have come a remarkably long way in management-trade union relations in just over a decade. Though relations often are difficult at the work-place level, and indeed more broadly as we have all the excitement of the political change now going on, the fact of the matter is that business and trade unions are beginning to engage in a number of co-operative ventures which go beyond mere wage bargaining.

Whether it be setting up joint trusts for retrenched workers and assisting in the formation of business ventures for these, including co-operatives, working at the formulation of new labour legislation and discussing joint training ventures, there is a great deal of scope for progress. NUMSA and NUM have made various proposals relating to training, job creation and housing this year which I have no doubt the business world, including my Corporation, will want to take seriously.

How far can such a relationship go – what level of participation can workers and their unions look to achieving in business? The merits of the West German system of dual boards and worker representatives have not been widely debated in this country and, subject to a recognition of the differences in sophistication between ourselves and West Germany, this is certainly something that would be worth doing.

But it will not even be worth starting down this road if trade unions remain committed to sanctions, nationalisation and opposition to all of the policies the business sector sees as necessary for sound economic performance. Differences of view can be accommodated, but unremitting opposition of an ideological nature will not serve to promote closer co-operation.

In any case, it is important to start from where we are now and expand "zones of co-operation" in the areas mentioned above before more ambitious ventures. The apparently successful outcome of the SACCOLA/COSATU/NACTU talks on the Labour Relations Act is most encouraging in this respect.

(ii) Emerging business

There is also room to do more in the area of actively encouraging the emerging black business sector, whether it be through the provision of finance advice or training. Much is being done via black business groupings such as NAFCOC and FABCOS, development agencies such as the Small Business Development Corporation and The Urban Foundation, but a sustained dialogue with the emerging business sector to deepen relationships through a better understanding of mutual needs is required.

(iii) Contracting out and sub-contracting

Business is also discovering the scope offered by contracting and sub-contracting, *on a commercial basis.* In my own company's case, in a relatively short period of time substantial numbers of deals have been struck, recently including some in excess of R1 million. But it is not always a shortage of capital or markets that is the major problem, but rather of expertise.

Here the making available of skilled personnel whether it be through the mentoring programmes of the agencies mentioned, or the seconding-out of officials by companies, or indeed utilisation of the most valuable pool of retired executives by agencies such as the International Executives Services Corps all have a place. My Corporation and other businesses are expanding their involvement in this area and no doubt need to do a great deal more.

(iv) Training

This leads naturally into a consideration of education and training and advancement. Again I want to say that a change of gear is needed from the already substantial efforts being made in this direction. As I have already pointed out, there is scope for inputs at State, trade union, corporate and joint venture level, with the aim always being to educate for employability and to upgrade skills so as to gain greater productivity and give access to employment opportunities at higher levels, most importantly in management.

(v) Share-ownership schemes

There are a variety of ways in which popular ownership can be encouraged both at group and subsidiary level, be it through the facilitation of share purchases, savings schemes as pursued for example by the highly successful Japanese companies after World War II and so on. Some modest schemes, such as my own Group's, exist, but we will have to look at ways of broadening and deepening these.

Indeed, whilst the direct ownership of shares amongst black South Africans may be said to be spreading only slowly, indirectly through pensions and provident funds, there has been a spectacular increase. The NUM Provident Fund is now the largest statutory savings institution in South Africa and after July, when contributions increase, will be growing by R100 million a year. The total value of pension and provident funds is in excess of R130 billion.

The black share is hard to calculate because records are not kept on a racial basis, but must be significant and increasing rapidly. The indicative measure would be the pace at which blacks' share of personal income increased from 30 per cent to 43 per cent from 1960 to 1987 and is increasing now at a rate of 1 per cent per annum. The proportion of disposable income is even higher since those already in the tax net paid 88,6 per cent of all direct taxes in 1987.

How and when black South Africans choose to mobilise such income and capital must depend largely on individual and organisational choice.

11. CONCLUSION

In conclusion I would like to make a plea for pragmatism rather than ideology to govern our decisions. Blending competitive individualism and broader societal co-operation will allow the First World part of our economy to be the driving force to growth to help the Third World part develop dynamically too, while making use of those areas of communalism and co-operative endeavour whichever may be desired or useful. The linkage should be a tax system which gathers as much revenue as possible, consistent with encouraging local and foreign enterprise and investment and an allocation of that revenue in a manner consistent with the objectives outlined in this paper.

Stephen Gelb*

Democratising economic growth: Crisis and growth models for the future

The debate about future economic strategies and development paths for South Africa is being conducted at present in terms of two separate concerns – redistribution and growth. The former is a response to the need to redress the extreme inequalities in distribution of income and wealth, and the related disparities in living standards, for which South Africa is notorious, and which have historically been expressed essentially in racial terms. The latter is a response to the severe decline in South Africa's economic growth performance over recent years, which has coincided with, and been linked to, the change in the political balance which has now finally brought the society to the edge of negotiations.

I take as implicit both the need for significant reorganisation of the economy and society to redress racial inequalities in distribution of economic power and resources, as well as broadening the explanation for the existing situation, as put forward during the 1970s by the 'radical' perspective of South African capitalist development[1]. This paper begins with an examination of the nature of South Africa's economic decline and of the obstacles which exist to restoring sustained growth in the future. It then continues with an examination of the business/government attempt to counter this decline. The fourth section spells out in broad terms an alternative approach to restoring economic growth, one which is being debated and developed within the ANC and its allied organisations.

I. South Africa's economic crisis

The essence of the argument[2] is that, considered in the context of a long-run perspective on capitalist growth and development, the South African economy has experienced an *economic crisis* since 1974. The popular connotation associated with 'crisis' is an idea of collapse or breakdown. But the original, more useful, meaning of the term is 'turning point'. In this sense a crisis in a capitalist economy implies that the system cannot continue to develop along the same path as before – it must 'adapt or die', as PW Botha eloquently expressed it more than a decade ago.

South African capitalism reached a turning point in the mid-70s, reflected in both the decline of the long-run growth rate of the GNP, as well as the more unstable and volatile shorter-run cyclical fluctuations since that time, as compared with the period following World War II. These changes in the pattern of GNP growth have been linked to the failure of the 'growth model' – the combination of patterns of production, distribution and consumption, in other words, the *form* of capitalist growth – which had characterised the postwar period of relatively sustained economic expansion.

The years since have seen the decay of this 'old order' and the emergence thus far of only some elements of a possible successor. The turning point has not yet been fully traversed – the crisis continues.

The growth model which emerged in South Africa in the post-war period focussed on extending industrialisation via the production of (previously imported) sophisticated consumer goods for use primarily within SA. A possible alternative orientation would have been to expand production of basic consumer items for both (larger) domestic and foreign markets. This was the path followed by South-East Asian industrialisers like South Korea. Two primary factors pushed South Africa, perhaps inevitably, towards the former path:

- racial domination, creating political pressure to substantially raise white living standards, while similar black demands were repressed;
- mineral wealth, making it possible to pay for the necessary machinery imports.

The resulting 'growth model' has been called "racial Fordism"[3], to indicate that racial domination was the pre-eminent factor shaping economic institutions. It combined import substitution industrialisation (ISI) with the apartheid structuring of the labour and consumer goods markets. Whites were in a similar position to the working classes of the advanced industrial countries, with steadily rising living standards, while blacks (especially Africans) remained relatively impoverished, though their incomes did rise slowly. Thus inequality increased.

The essential foundation of "racial Fordism" was the expansion of exports of gold and other precious metals, and their stable prices on world markets. Overall export earnings were relatively stable (as distinct to constant), so that there was only limited variation in the investment coefficient (the ratio between investment and GNP) over the course of the business cycle.

This model fitted well with growth patterns in the major industrialised economies, and like these countries, SA grew rapidly, with an average GDP growth rate of 4,9% per annum between 1945 and 1974. While cyclical fluctuations occurred, there was a relative stability in the long-run in the relation between the changes in labour productivity and in capital intensity, so that the wage share was relatively constant. The interaction between these variables followed a similar pattern as found in the advanced economies, though productivity growth and wage share in South Africa were both at lower levels absolutely.

The model's 'success' in achieving growth brought its own problems, however. The emphasis on capital-intensive production methods meant, first, that employment rose, but slower than the overall labour force, so that unemployment also rose. Also, machinery and intermediate production inputs came to dominate imports, so that the ability to expand production was increasingly tied to balance of payments considerations.

By the start of the 1970s, there were already clear indications that these factors were becoming serious obstacles. Indeed, these rigidities helped to shape the manifestations and impact of the economic crisis as it has developed – their legacy constitutes two of the key problems we confront today.

But more immediate problems arose, linked to the wider crisis developing in the international economy as a whole. There were three immediate causes of the crisis. Firstly, rising costs of imports of both machinery and commodities (especially oil after 1973), which raised the cost of investment and productivity improvement in South Africa. Secondly, the collapse of the Bretton Woods system of fixed exchange rates led to fluctuating prices on world markets for South Africa's mineral exports, which now became a *destabilising* influence on the overall growth, as opposed to their stabilising effect in the earlier period.

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Thirdly, and partially related to these international developments, real wage levels for African workers rose significantly from the mid-70s, further boosting already rising production costs in both manufacturing and mining. The apartheid institutions in the labour market proved unable any longer to limit Black wages, especially given the growth in the size of the working class during the 1960s. The mechanisms within the financial system which had helped to direct funds from mining to the other sectors were now helping to boost inflation.

The growth model's strengths now became weaknesses as these developments disrupted previously stable relations – on the one hand, the link between imports, export revenue and investment, and on the other, the interaction between wage increases and total wage share, productivity growth and consumption patterns. This destabilised overall growth, pushing up production costs, and producing greater cyclical instability.

The result has been stagnation, and declining investment and productivity growth. One metaphor for this is the transformation of the 'image' of the South African economy from a site of 'superexploitation' yielding 'superprofits' to an economy increasingly abandoned as a locus of operations by multinational corporations, whether foreign or South African, because of high costs and poor profitability prospects.

The crisis has seen the decline and collapse of the old growth model. Much of the 'reform' process since the late 70s can be read as efforts to adapt and shore up the racial fordist growth model. Central to the ultimate lack of success in this regard have been the responses – economic and political – of groups and individuals to the effects of both crisis and reform.

In the process SA's social structure has been fundamentally transformed, with much greater class differentiation emerging within racial groups. Substantial middle classes and masses of unemployed have emerged amongst urban blacks, the former due to the relatively more rapid growth of the service, distributive and financial sectors, and the latter due to the slow rate of employment creation and the collapse of influx control.

Employed workers have become a major organised force, and are now to be found in the semi-skilled/skilled categories, as opposed to the unskilled/semi-skilled category of the racial fordist era. At the same time, *relative* to the mass of urbanised unemployed, they are in well-paid and secure employment.

At the other end of the spectrum, the major conglomerates have greatly extended their grip on the commanding heights of the economy. The mining and financial sectors were relatively favoured by stabilisation policies on exchange rates and interest rates, as compared with the manufacturing and commercial sectors. One consequence of this unevenness has been a significant increase in the concentration of ownership, particularly during the 1980s, as illiquid corporations in the latter two sectors shifted from debt to equity financing.

In addition, part of the attempt to adapt the racial fordist model (and now increasingly part of the efforts to structure a new model, as we shall see below) has been the liberalisation of the financial markets. As poor profitability and low confidence produced a massive drop in company fixed investment, there has been substantial growth in the size of flows through the financial markets, which have also grown in sophistication. On the other hand, there has been little success (even in mining) in improving the unfavourable trend of rising production costs, both absolutely and in terms of international competitiveness.

II. Towards resolution of the crisis

As noted above, the crisis is not yet resolved: we are still in the midst of the turning point. The ending of apartheid – the last important element of the old growth model – would make it possible – but not inevitable – for a new growth model to emerge in the future.

Two general points can be made concerning preconditions for a new growth model. The first is that the economic crisis of the 1970s and 1980s has been a 'supply-side' crisis in the broadest sense of the term, that is, the origins of the decline in growth and the disintegration of the racial fordist model are to be found in problems on the supply-side of the South African economy – in the process of production. It is only during the course of the crisis that inadequate demand became a factor.

As a result, a condition for a new growth model to emerge is that there be restructuring in order to lower costs of production. In addition, a new growth model will have to overcome in one way or another the second source of instability which has emerged during the course of the crisis – the vulnerability of manufacturing output levels to external shocks, because of its dependence on imported equipment and intermediate inputs. In other words, a new growth model cannot be based simply on an expansion of demand, for example through the redistribution of incomes.

The second general point is that a new growth model cannot simply be constructed on the basis of a blueprint. A growth model would emerge as the outcome of a political process, involving different social forces putting forward alternative 'strategies for accumulation', or policy packages, relating to the sphere of production and to the spectrum of markets in the economy – labour, finance, consumer, foreign trade, and so on. An accumulation strategy attempts to tie together a range of classes or other social forces in a commonality of interests (a positive-sum game). The interests of these groups might well conflict in a different context – a strategy for accumulation aims to reorganise opposing group interests into a compromise, and synthesize them so that material gains are made by all groups incorporated within its scope.[4]

An example of an accumulation strategy is welfare Keynesianism. This reorganised the interests of both capital and labour, which had previously been expressed only in antagonistic terms. The policy package which Keynesianism put forward expressed these interests in a different way, advancing the interests of both workers (through rising living standards) and business (through growing markets) in advanced economies after the 1930s Depression and World War II. This particular strategy is not directly translatable into contemporary South Africa, however – the economic crisis at that time reflected demand-side problems.

The terrain on which accumulation strategies are currently being advanced in South Africa is defined by the extreme class differentiation, which has increased in the context of economic crisis. This implies that accumulation strategies necessarily have to encompass a widely divergent array of group interests. But it also means that it is unlikely that a single accumulation strategy could incorporate the full spectrum of society – important and powerful groups are likely to be excluded by any particular accumulation strategy.

What are the accumulation options on the table in South Africa? As in the 1940s, South Africa appears to be facing two alternative paths. Both articulate themselves in terms of a "growth-redistribution" framework, but reflect the interests of different combinations of classes and groups. This is because the respective growth paths embodied in each accumulation strategy have strongly contrasting implications for the nature, extent and time-scale of redistribution. For this reason, it is difficult to conceive of a "compromise" *between* the two alternative accumulation strategies, as distinct from the "compromise" *within* each strategy between different social groups.

The achievement of a constitutional settlement, and its terms, will naturally be amongst the critical factors shaping the choice between the two alternatives. The terms of a settlement will reorganise (some) interests of the different groups in South African society, in the context of transforming the balance of forces amongst them. It is also possible, however, that a constitutional settlement could shift the balance between social forces in such a way as to *prevent* the emergence of a viable coalition linked to one or the other accumulation strategy. In such a situation, sustained economic growth is unlikely to be possible.

III. Neo-liberal export-oriented growth

Over the past decade and more, there has been much debate and division within big business, and between this group and the government, over the appropriate policies necessary to transform South African capitalism and resolve its crisis. Though the details lie beyond the scope of this paper, it is important to point out that one of the crucial changes brought about by the "new" administration of FW de Klerk, has been to make government economic policy both more coherent, as well as more consonant with the expressed concerns of most of 'big' business. Many of the policies reflected in this neo-liberal export-oriented strategy have been advocated for some time. Since late 1989, they have begun to be implemented, while other policies which do not fit into the strategy have been abandoned.

The central focus is on restructuring and regenerating the manufacturing sector using 'neo-liberal', or market based, policies to alter cost structures. This, it is argued, will not only restore the profitability of production, but simultaneously make South African manufactured goods more competitive internationally, thereby expanding markets. In terms of industrial development, the emphasis has fallen upon the need to extend the processing (beneficiation) of minerals currently exported in raw or semi-processed form, so as to increase the degree of value-added accruing to the South African economy.

Neo-liberal policies include, firstly, the state limiting its own economic activity in relation to the provision of goods and services. The major intervention in this respect is privatisation of State-owned corporations and State-provided services. Secondly, and more importantly, State intervention in the activities of other economic agents is increasingly to be limited to defining the broad parameters of market processes, that is, the general cost levels of productive factors (labour and capital especially) and other incentives (such as tax allowances and subsidies). The autonomous responses of economic agents to these changes in market price 'signals' will produce, according to this view, the desired transformation of the profitability and the structure of production.

Underlying this approach is a particular theory of markets, based on the assumptions that the commodities bought and sold in markets are homogeneous, and that market processes themselves are based on 'rational' actions by identical economic agents, and are thus themselves uniform and predictable. Markets are therefore regarded as efficient allocators of economic resources.[5]

Policies intended to redefine market parameters in this way include the new General Export Incentive Scheme, and the accompanying scrapping of the targeted intervention approach of the individual industry-based Structural Adjustment Programmes, as well as the deregulation of the financial system, which, as noted above, has enhanced the degree of control by the major conglomerates over financial flows. A further element is the need, frequently referred to in public discussion, for restraint in nominal wage increases, as the major approach to slowing inflation, currently running at about 10% higher than South Africa's major trading partners. This is likely to be translated into active policy in the near future.

The aim is to achieve economic growth along the same capital-intensive, raw material-based path as in the past. The direct employment potential of this approach is quite limited. On the other hand, the investment requirements for growth along these lines to be established and subsequently sustained, are substantial. A substantial proportion of the overall surplus will have to be invested in installing and renewing the technologies required for international competitiveness. One unanswered question facing this accumulation strategy is whether firms will respond as intended to new price signals. In other words, given the very low confidence levels of South African business over the past decade and earlier, it is by no means certain that the transformation of market conditions will be sufficient to draw financial resources into investment projects with high risk-profiles and long lead-times.

Naturally, a primary intention of the strategy as a whole is to meet the needs of big business and some (though not all) other sectors in the white population. But the interests of significant strata of the black population can also be accommodated, especially once these interests are recast in a post-apartheid context. Those blacks employed in the major sectors of the economy – particularly mining, large-scale manufacturing, and finance – would clearly benefit substantially. This would include not only black middle-class strata, but also organised workers, who could achieve wage gains in line with the growth in productivity, which is expected to be fairly rapid. As a result, this strategy is likely to expand the 'wedge' between employed and unemployed, notwithstanding the fact that wage restraint is one feature of the policy package.

"Redistribution" within this strategy would be a distinct process from economic growth, focussing on those groups not directly incorporated into the dominant sectors. It would take a number of forms. First, it would involve the channeling, to the "disadvantaged" sectors of the population, of a fraction of the additional resources available from the expected boost to growth. This would be accomplished through mechanisms such as the R3 bn Independent Development Trust ('Jan Steyn Fund'), announced as part of the March 1990 Budget and equivalent to about 4% of total government expenditure. It has been followed by the establishment of private foundations by several large companies, with essentially the same purpose. These funds are intended to provide initial capital for the urban poor in "development areas" (as the official jargon puts it) to meet their own needs in terms of employment and basic consumer goods, independently of the capital-intensive, large-scale manufacturing sector.

A second significant element of this 'self-development' process, similarly indicative of the neo-liberal approach, is deregulation of small business. It is argued that laws and regulations have been the major inhibiting factor upon entrepeneurship, so that the removal of these legal constraints will be sufficient for the flourishing of black-owned micro-enterprises. Little of a more active nature is being done, or even intended, by way of enhancing the flows of capital, skills, and other prerequisites to this sector.

The neo-liberal export-oriented strategy would, in sum, be likely to reinforce and extend a dualistic structure of society, by widening income inequality within the black population, and indeed overall. Some groups would be incorporated within the "compromise" behind the strategy, but large sectors of urban and rural poor would be excluded, obtaining benefits only from the secondary redistributive mechanisms, to a limited degree and over an extended time-scale.[6]

This consideration raises the critical issue of the prospects for political stability in the context of the neo-liberal accumulation strategy. In particular, it raises the question of the relation between this accumulation strategy and the government of a newly-constituted non-racial democratic South Africa. One perspective on this issue can be read from the announcement that "black political organisations" would be invited to consult and participate in the process of disbursing the Independent Development Trust. These organisations are evidently perceived as the vehicle through which the poorest sectors of the population are to be linked into the overall accumulation strategy. A corollary is that these organisations would carry the responsibility for "domesticating" their constituencies.

Both roles have begun to be played under existing constitutional arrangements, with the 'normalisation' of political activity since February 1990. In a post-apartheid scenario, a new government, based primarily on the 'new' urban black insiders – middle classes and employed workers – would be under great pressure to act along similar lines. It would find it hard to resist the argument, presented as embodying hard-headed economic logic, that it should leave the industrial 'engine of growth' more or less untouched and under the direction of those who currently manage it. In exchange it would receive a slice of a fiscal cake enlarged by economic growth, for "redistribution" among more marginal groupings, thereby enabling the retention of some political support amongst these sectors. This scenario is a familiar one in recent Southern African history.[7]

IV. Towards an alternative

The neo-liberal export-oriented accumulation strategy, already being implemented by government and business, focuses on a response to the problems underlying the growth crisis of the past 15 years – poor profitability of production and instability of export earnings.

The basis for an alternative strategy for future accumulation is an attempt to address directly not only the problem of low economic growth, but also some of the contradictions – unemployment and extreme *relative* poverty – contained in the 'choice' of 'racial fordism' in the 1940s, and which have been dramatically magnified by the crisis of that growth path.

The path not adopted in the 1940s would have aimed to absorb the labour surplus pushed out of the agricultural sector, through the expansion of labour-intensive basic consumer goods industries, for the domestic market in the first instance. These are precisely the broad objectives of the alternative strategy available today, although the specifics must necessarily be adapted to current circumstances.

An alternative accumulation strategy with these goals has been advocated in recent years within government and business policy debates. The 'inward industrialisation' view[8], put forward by Professor Jan Lombard of the SA Reserve Bank and a few colleagues, argues that black urbanisation has shifted income distribution and the composition of consumer demand, providing the scope, and the need, for restructured and expanded industrial production. In this view, these objectives could be achieved using neo-liberal policies. While still a factor in the debate, 'inward industrialisation' has increasingly become subordinated to the export-oriented path, at least as the central focus of policy.

An accumulation strategy with similar objectives, but based on a distinct set of policy mechanisms, is now in the process of being elaborated by economists broadly aligned with the ANC and its allies, especially COSATU.[9] In this paper, I can only point to some of the major features of this accumulation strategy, especially those which distinguish it from the neo-liberal export-oriented strategy, and also to some of the major obstacles.

In contrast to the separation between redistribution and growth reflected in the export-oriented approach, this strategy aims to achieve growth through a more extensive and rapid redistribution of incomes and wealth, resulting from employment creation and expanded production of basic consumer goods. The underlying synthesis of interests includes not only the employed working class and the mass of urban unemployed, but also the middle classes (black and white).

The crucial issue is that this strategy cannot be premised on a direct redistribution of incomes, whether as "high wages" for organised labour, or as an income subsidy for the unemployed. This route would simply exacerbate a cause of the growth crisis, which, as noted, originated on the supply-side of the South African economy, and thus lead quickly to supply bottlenecks and higher levels of inflation, eroding any potential real gains. Instead, the supply-side – the restructuring of production – must be the focus of an alternative accumulation strategy.

The emphasis therefore would be placed on the redistribution of *investment,* rather than consumption. This implies, first, a substantial increase in the level of productive investment, made possible by drawing funds out of financial markets. At the same time, the composition of productive investment would need to be shifted away from its current emphasis towards industries and sectors targeted for expansion.

Housing construction is the most important single sector to be targeted for investment, though questions remain about its growth potential and macroeconomic constraints upon the range of strategies towards the housing question. Over and above this, there are competing views about which sectors and industries are appropriate. One alternative suggests labour-intensive light industries in the formal sector, such as food, clothing, furniture and so on, to try to take advantage of potential economies of scale. A contrasting approach is that investment should be directed towards infrastructural services, such as electricity and telephones, in the black townships, to encourage growth of "informal sector" manufacturing micro-enterprises producing basic goods, and expanding employment.

'Redistributing investment' immediately raises the question of the role of the State, perhaps the central issue in debating future accumulation strategies. There is no good reason to suppose that the future South African State will be, or indeed should be, different from States in a diverse range of historical experiences, in playing a substantial role in stimulating and shaping the economic advancement of the society. Only by using the capacities of the State to counter the extremely powerful but inevitably recalcitrant private economic agents, especially the conglomerates, does it seem possible to bring about the fundamental shift of direction in South African economic development that is required by this accumulation strategy.

One aspect of state intervention must be the planning of target rates of change for essential macroeconomic variables, such as output, employment, and prices, especially to enable shifts of emphasis within the overall growth path. Thus, as the South African economy aproached a state of full employment and satisfaction of basic consumer needs (which will undoubtedly take many years), it would become necessary to shift the emphasis of investment policy.

Beyond this, however, the form of State intervention would not be determined on general principles, but on the basis of strate-

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gy and policies developed sectorally, though by no means all sectors would necessarily be identified for intervention. In other words, state intervention would be targeted and selective, rather than overarching, as in Eastern European central planning models. Where it was undertaken, however, intervention would be pervasive, that is, far-reaching in shaping the activities of economic agents, in contrast to the neo-liberal reliance on agents' autonomous responses.

Underlying this approach is a fundamentally different view of the nature of markets, and the relation between markets and planning. Rather than counterposing 'free' markets to constraining regulations and plans (as in the neo-liberal paradigm), both market and plan are understood as institutional *processes*, enabling and constraining economic agents. From this perspective, the view of the market as an efficient and optimal mechanism for allocating resources is narrow, and limited to the static framework of a given environment. Of far more interest are dynamic questions such as the interaction over time between institutional change and changes in the behaviour of economic agents.[10]

In other words, all economies are 'mixed', in the sense of combining markets and plans. The policy problem is not to find a single optimal (statically efficient) combination between the two processes, but rather to manage their interaction over time, in order to achieve dynamic efficiency. This requires continuous planning and transforming of the market environment within which firms operate, to guide firms' activities in line with wider social and development objectives.

In this context, calls for, and debate about, the merits of nationalisation can be seen in a new light. On the one hand, decisions about the state's direct role in the provision of goods and services are located within a much broader set of considerations of its capacity to influence the use of economic assets which it does not immediately own. It may be most efficient for social infrastructural prerequisites for formal sector development in urban areas to be delivered by newly-established or extended State corporations. On the other hand, the expansion of production along more conventional formal sector lines could not be based upon large State corporations. Hence, actual nationalisation – in the sense of the State taking over ownership of assets currently privately-owned – is likely to be appropriate in only a limited number of situations.

Instead, the State would have to intervene in the private sector investment process to ensure that resources were channelled in the desired directions by private firms themselves. This would require a co-operative relationship between private firms and State planning institutions, with firms involved in the sectoral planning process (as indeed should organised labour be). At the same time, firms would have to accept a subordinate role in this process, in return for the planning process creating a basis for profitable production. If State-private sector interaction is characterised by conflict rather than co-operation, the outcome can only be dynamic *inefficiency*, and continued stagnation.

In an economy like South Africa's, with the private sector dominated by a few large conglomerates, the prospects for this accumulation strategy will hinge on the policy adopted towards the conglomerates. For the 'redistribution of investment' to be successful, the conglomerates cannot be left in their present form. The central reason for this is that the conglomerates dominate the provision of external finance to industrial firms, financial linkages within the various conglomerates constituting the nexus of this process. The subordinate position of the banks to non-bank financial intermediaries within the conglomerate structure reinforces the latter's relative immunity from even conventional forms of State control over financial flows. An illustration of this was provided by the conflict in early 1990 between the SA Reserve Bank and the commercial banks over prime interest rates and off-balance sheet lending, where the Reserve Bank had extreme difficulty gaining acceptance for its efforts to limit monetary growth.

Comparative experience from both the advanced capitalist economies and the East Asian NICs suggests that the capacity of a State to intervene in, and direct, private sector investment depends critically on the nature of the financial system transforming savings into investment. The crux of the issue is the relative weights of bank credit provision and capital market processes in providing firms with external funds, required over and above retained profits for fixed capital investments. In economies, such as West Germany, Japan or Taiwan, where banks are critical in providing finance to industry, and capital markets are less developed, the State is able to shape industrial development through central bank regulation of bank lending policies. This is in contrast to the US and UK economies, where the dominance of the stock markets and the resulting diffusion of capital mobilisation makes State intervention extremely difficult.[11]

Notwithstanding that there might be benefits (of economies of scale and of information) arising from the existing corporate structure in South Africa, the redistribution of private sector investment in South Africa will require the State to restructure the financial networks which constitute the conglomerates. This would best be carried out *not* by nationalisation, but rather using anti-trust policy to dissolve the holding companies, which are the critical feature of South Africa's conglomerate structure. At the same time (though this would not be the primary objective), the controlled sale of the holding companies' shareholdings in operating companies could achieve a more equitable distribution of asset ownership, especially if affirmative action was used to promote black ownership of business. Such a anti-trust policy would result in the private sector remaining powerful productively, but being far less concentrated, and thus more likely to be subject to State intervention.

An interesting and important historical parallel in this regard is action taken by the United States Occupation Force in Japan after 1945. The *zaibatsu* conglomerates (which strongly supported the Imperial Japanese government during the war) were broken up via the banning of their holding companies, and the resale of their shareholdings. Although conglomerates re-emerged in Japan during the 1950s, after the Occupation had terminated, their structure was quite different from the pre-war situation, since the banks were now at the centre. The 'new' conglomerates were thus subject to the economic leadership of the Japanese State, and played an important role in the 'Japanese economic miracle'.[12]

Will it be possible for a democratic and non-racial government in South Africa to undertake such dramatic action? In fact, a confrontation with the conglomerates might be inevitable. Even a "gradualist" approach involving higher rates of taxation and the reintroduction of prescribed assets may, in the context of the overall accumulation strategy, prove to be more than the conglomerates are prepared to stomach. It needs to be emphasised also that it is not only that the composition of investment needs to be transformed, but also its level increased. It cannot be assumed that private sector investment will automatically increase from its abysmally low levels of the past 15 years, in the context of a moderate post-apartheid government trying to move cautiously away from inherited neo-liberal policies towards a more development-oriented approach.

If a challenge to the power of the conglomerates does occur, two points are worth underlining. One is that the approach sketched above retains, and indeed enhances, the role of the private sector. The other point is that the dissolution of the conglomerates provides an important mechanism for linking the interests of the middle classes, including small and medium-sized businesses, with those of the working classes (employed and unemployed).

Space constraints exclude consideration here of other potential constraints for this accumulation strategy, such as external trade and the sources of savings. What does need to be considered, however, are the implications for the rate and time-scale of economic growth. To begin with, it should be emphasised that expanding and redistributing investment will immediately result in economic growth – this is a strategy for accumulation, not simply for expanding consumption. At the same time, it must be recognised that some increase in consumption levels over the short-term must reduce the overall surplus available for growth. Adding to this is the need to expand the delivery of services (education, health, welfare) to those sectors and areas where they are currently in limited availability. This is a major political demand, and expectations will have to be met to some degree.

Employment creation through labour-intensive industrial expansion will also involve some trade-off with productivity growth deriving from increased applications of technology, at least until the labour surplus is absorbed. For all of these reasons, a first response to the issue of the rate of economic growth might suggest that a somewhat lower rate would be achieved than by a path which places stricter limits on aggregate consumption growth. This might also be considered a price worth paying for achieving greater equity.

To leave this question here would be to remain trapped in a static framework, however. What needs to be taken into account in addition are the productivity enhancements and dynamic efficiency gains derivable from the sectoral planning approach. This allows the more rapid diffusion of new forms of organisation of, and methods of, production, as well as the avoidance of wasteful competition, and duplication of effort. Comparitive experience suggests that this approach presents a much more promising route to cost savings and restored profitability, that the neo-liberal attempts to 'get the prices right'. Viewing the growth potential of this accumulation strategy from this dynamic perspective, then, suggests that it could offer at least as much in terms of a growth dividend for South African society as a whole as the current government/big business view, while far surpassing the latter in terms of the scale and pace of increased equality.

V. Conclusion

South Africa's future economic growth strategy will be determined by the political process, reflecting the balance of power in that arena, rather than being determined by debate amongst economists. Nevertheless, the debate is important in clarifying the possibilities and their consequences. This paper has argued that real alternatives do exist for achieving growth and improving equity. It is often implied that the dispute is between those with a clear and sober view of economic realities and constraints, and an insistence on efficiency, and those on the other side trying to link the overwhelming expectations of their political constituency with a naive understanding of economic possibilities and an outdated reliance on the State. Instead, the debate should be seen as involving one side trapped within a static framework offering only a choice of a single point in the trade-off between growth and redistribution; and those whose alternative perspective is oriented towards both dynamic development and greater equality. Only the latter option can offer a way forward on the question of forming a cohesive and unified nation out of the diverse and conflictual structure of South African society. This process will in any event require the best part of a generation. But it is an essential ingredient for South Africa's long-term economic future to be secured.

Acknowledgement

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Notes

1. Useful presentations of this perspective can be found in Freund, WM (1984). *The Making of Contemporary Africa* (Indiana University Press: Bloomington); Murray, M (editor) (1990). *South African Capitalism and Black Political Opposition* (Schenkman: Cambridge, MA, 1979); and "History from South Africa", Special Issue of *Radical History Review,* pp 46-47.
2. The argument is fully elaborated in my chapter, 'South Africa's Economic Crisis: An Overview', in Gelb, S (editor) (1990), *South Africa's Economic Crisis,* David Philip Publisher, Cape Town, and in the other chapters of this volume, which is an edited version of a report prepared for the Congress of South African Trade Unions (COSATU) by the Economic Trends Research Group.
3. This term adapts the concept of 'sub-Fordism' presented in Lipietz, A (1987). *Mirages and Miracles: The Crisis of Global Fordism,* Verso, London.
4. A useful discussion of these issues can be found in the conclusion to Esping Andersen, G (1985). *Politics against Markets: The Social Democratic Road to Power,* Princeton UP, Princeton NJ.
5. Useful critiques of this conception of markets, and outlines of an alternative approach which underlies the discussion in the next section of this paper, can be found in Hodgson, G (1988). *Economics and Institutions,* Polity Press, Cambridge England, and Best, M (1990). *The New Competition,* Polity Press, Cambridge England.
6. It is also worth noting that these are almost the precise terms in which those who identify themselves as 'social democrats' present their policy case. The logic of the argument presented here suggests that the 'grand compromise' which they support is most likely to lead to the continued and reinforced marginalisation of the very sectors of society they purport to be most concerned about.
7. It should be evident that there are close similarities between the neo-liberal accumulation strategy as presented here, and the 'structural adjustment' policy package being pressed upon governments in Southern Africa and elsewhere by international institutions such as the IMF, World Bank, and others.
8. This perspective is elaborated in Lombard JA, et al, *Industrialisation and Growth,* Mercabank Focus on Key Economic Issues (Johannesburg), p 36, 1985.
9. The discussion took a substantial step forward at the Harare workshop in April 1990. The 60 economists and officials of the ANC and COSATU produced a substantial document outlining proposals on economic policy for a democratic non-racial South Africa, published in the weekly *New Nation* (Johannesburg), June 15 1990.
10. See the references in note 5.
11. See Zysman, J (1983). *Governments, Markets and Growth: Financial Systems and the Politics of Industrial Change.* Martin Robertson, Oxford and Wade, R. 'The role of government in overcoming market failure: Taiwan, Republic of Korea and Japan', in Hugehes, H (ed) (1988). *Achieving Industrialisation in East Asia,* Cambridge UP, Cambridge England.
12. Details of the US anti-trust policy in post-war Japan can be found in Allen, GC (1958). *Japan's Economic Recovery.* Oxford UP for the Royal Institute for International Affairs, London and Hadley, EM (1970). *Antitrust in Japan,* Princeton UP, Princeton NJ.

Aubrey Dickman*

The economic debate on a post-apartheid society†

As we move along the tortuous path to constitutional negotiation, life must go on. It will be much better if the economy can provide for all reasonable demands and promise greater benefits in future. This will not only satisfy the requirements of the day, but create a climate in which consensus on economic goals can assist in the reconciliation of differing political aspirations.

Sadly, this is not the case at present. Although the economy is coping well with the pressure of financial sanctions, it is doing so at an inevitable cost to growth and employment. This is not to gainsay the enlightened market-orientated policies which are now being pursued, but it must be recognized that these have come late in the day, and in not very propitious circumstances.

The international community waits for unambivalent signs that a post-apartheid South Africa will want to be part of a world disillusioned with dirigism in general and the African example in particular, whether in grosser socialist forms or in many other ways. The remarkable changes that have swept the country since Mr De Klerk's accession to office have resulted in improved attitudes which have already reduced capital outflows and are helping to bring about a healthier balance of payments and lower inflation as a pre-condition for renewed growth. This is a tribute to the resilience of the economy that is not lost on those in international finance.

The other side of the coin is a different kind of legacy and resulting perceptions, strengthened by the recent failure of the economy to deliver – no matter that this is due in large measure to sanctions themselves – which bedevil the prospects of reassuring foreigners as to South Africa's commitment to liberal free enterprise values. Nevertheless, a staunching of the capital drain is not enough: the revival of investment – the key to economic success – requires confidence, and this has to be nourished by capital flows to supplement domestic savings.

For ultimately, it is investment we are talking about – who decides where and how much to invest – which will determine our survival in a harshly competitive world. This is what the debate over the control of resources is all about, and while it rages – understandable though it may be in light of the years of feudal capitalism and Afrikaner socialism, with all their shameful waste and inequity – progress will be impeded.

The state of play between those who wish to see a properly-functioning market economy and those who remain wedded to a so-called "different tradition" or who pay lip service to a conveniently vague concept of a mixed economy is usually evaluated with reference to the debate about nationalization. But there is more to it than that. It may be illuminating to traverse the road apparently followed by the ANC from the original Freedom Charter of 1955 to Mr Nelson Mandela's declaration in Washington that there is no ideological position on nationalization. Nonetheless, the delphic nature of his remarks on that and other occasions, and those of his colleagues and supporters from associated organizations, reveals at best scepticism, and at worst, a fundamental animus, towards the market economy. It is no wonder that nationalization has been dismissed as a code word for something else: the question is, what is that something else and what, if any, is the policy of the ANC in that respect?

Identifying the landmarks on this winding road is one thing: there are signposts pointing at different directions at various points. Our problem is to know who is charting the course and where we will end up. It is clear that there are various influences at work, some in the ANC, some outside, and that clarity on policy is certainly not the order of the day. One thing is evident, however, and that is that interference with the market mechanism – even in an economy where democratic choices can be freely expressed – is their preferred approach. This paper focuses on the perceptions that radical critics have as to the way the financial system has allocated resources for investment, and assesses the implications of some proposed alternatives even though they are not necessarily ANC policy at this stage. Nevertheless, before getting to grips with these issues, the background must be delineated more sharply.

The starting point is the revised Freedom Charter, i.e. the 1988 version. The section on the economy was free of some of the dogma that characterized the 1955 declaration, and implied a degree of free enterprise. Yet it insists that the State shall have the right to determine the general context in which economic life takes place, and limit the rights and obligations attaching to ownership and use of productive capacity, while the private sector shall be obliged to co-operate. This statist thinking was reflected in the Harare Declaration on Constitutional Guidelines the following year: that there shall be created an economic order that shall promote and advance the well-being of all South Africans.

Of course, by this time some of the intellectual underpinings of this thinking were beginning to surface. Joe Slovo's "Has Socialism Failed", was a remarkable contrast in many ways with the "Path to Power" programme of the SACP adopted at its 7th Congress in Havana – which in itself represented the beginning of an agonizing move away from a Stalinist past. This less obdurate approach and a retreat from an exclusively commandist solution, while seeking some form of worker participation in decision-making, was being echoed by others, as will be shown later. It is mentioned now because this apparent shift perhaps led many to believe that, while still in prison, Mandela had been party to this revised thinking. After a visit to Pollsmoor, Richard Maponya announced that Mandela did not believe in nationalization. The furore that this caused within the ANC and associated movements compelled Mandela to issue a statement confirming that nationalization of the mines, banks and monopoly industries was ANC policy, and that any change was inconceivable. This was repeated after his release.

The fat was then well and truly in the fire, followed by waves of anxiety in the financial markets and elsewhere in the ensuing weeks. The reaction to this, domestically and internationally, and the financial implications, were not lost on the ANC. There has been some damage control since then, but not all of it consistent. In March, Walter Sisulu referred to "creative nationalization" in a mixed economy, pointing to the State's role in directing the flow of investment and dismembering conglomerates as a means of promoting growth and correcting past injustices. In April, however, Mandela said that thorough research would be undertaken before the ANC adopted a firm stand on nationalization which, Thabo Mbeki said later, was only one option among many to be discussed by all concerned. At the Carlton Meeting in May, while underscoring this approach, Mandela was still ambiguous about the ANC's stand, saying, inter alia, that there should be no theological commitment to the principle of private property (while in the next breath

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†Based on an address to a S A Institute of Management Executive Briefing on 7 August, 1990.

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recognizing the importance of international confidence). This ambiguity was carried through to his address to the US Congress on 26 June. There was no ideological position on nationalization. The private sector is an (but not *the*) engine of development. Inevitably the democratic government will intervene – but business people can have confidence in the security of their investments.

Delphic indeed. Enough to show that the ANC does not have one policy on nationalization, but several, as noted by the Washington-based Center for Strategic and International Studies. But there are sufficient threads running through the various statements to discern a unifying pattern with interwoven interventionist threads. This emerges if the ancillary contributions that have helped to shape the debate are examined.

The two main exponents of so-called "democratic State planning" are Alec Erwin and Stephen Gelb, the former with Numsa and Cosatu, the latter with the University of Durban-Westville, and both leading members of the Cosatu affiliate, the Economic Trends Group, formed in 1988. Erwin's ideas on the restructuring of the post-apartheid society were apparent from an article in Work in Progress entitled Thoughts on a Planned Economy in September '89 and were formalized in a paper given at the December '89 conference in Paris, the Paris Indaba. Gelb's views on Democratizing Economic Growth were designed for the Economic Trends Workshop on Economic Policy in Harare at the end of April, and were presented to the Institute of Race Relations on 22 May. His thinking had been in evidence before. Business Day had published articles by him and Erwin earlier in the year which conveyed the essentials of their approach. They had not escaped criticism, and one was given to understand that all the answers would be forthcoming from the Harare discussions. Before examening the document that emerged, the relevant background arguments must be appraised, remembering that they had already been modified from earlier positions as a result of appreciation, reluctant or otherwise, of events in Eastern Europe.

For Erwin, the solution to overcoming the problems of poverty and legacy of apartheid lies neither in free market capitalism nor planned command economy socialism, but rather in a democratic political process that will entrench worker participation in policy implementation – this, he avers, is unashamedly socialist. While he concedes that privatization and deregulation could offer potential in terms of management accountability, the present concentration of economic power is unacceptable. A so-called high wage/low cost structure from capital-intensive technology can be achieved, implausibly, without foreign capital. The contradiction is resolved, presumably, through planning – adapted to our circumstances in some way – in other words social control over production via a range of ownership forms where the market plays a critically important role within the context of democratic structures at national, regional and local level, whatever this means.

The seductive reliance on planning is intrinsic to Gelb's analysis. Based on a critique of growth under apartheid characterized as "racial Fordism" (nothing to do with Huxley's "Brave New World", evidently) the focus is on the failure of the system to deliver while the conglomerate grip intensified and financial flows grew rapidly in increasingly sophisticated and liberalized financial markets. To deal with the crisis it is necessary to reject the neo-liberal view that a market-based process, including export-led growth within a less-protected and less inflationary environment, is a rational way out. All this, including the new socio-economic trust funds, deregulation, inward industrialization and redistribution through growth generally, must be rejected.

The alternative is an accummulation strategy based on the redistribution of investment – and this requires drawing funds out of financial markets and targeting them to selected sectors. Redistributing investment immediately raises the question of the role of the State, which will have to be a counterweight to the reluctance of powerful economic agents to be part of this new direction. Admittedly, State intervention would be selective, not over-arching, but it would have to shape the action of economic agents. This demands continuous planning and transformation of the economic environment; steering firms in desired directions and macro-economic planning of the degree of consumption versus investment. There must be co-operation with business – but firms must accept a subordinate role. Thus, nationalization can be seen in a different light – the State is the dominant actor through a mysterious collective-self-conscious social process. However, this cannot work unless there is direct intervention to restructure the financial network – the existing system, as in the US or UK where there is diffusion of capital mobilization, is inappropriate. On the contrary, the dissolution of conglomerates is essential to make bank lending and presumably corporate funds amenable to State control. In this way, it is believed, we can have both dynamic development and greater equity.

These and other ideas are reflected in the Harare Workshop document which has been submitted to the ANC and COSATU for consideration but does not represent their formal policy positions at this stage. On the face of it, as noted in a Financial Times report, the references to a transformation of the economy, of which nationalization would be an essential part, contradict Mandela's affirmation of a non-ideological position on this issue. Nevertheless, careful reading of the document reveals some ambiguity on this, although the ideological preferences are clear enough and the interventionist philosophy does not differ essentially from that expressed by the ANC and its affiliates.

The proposals are wide-ranging, and it is possible only to touch on the approach to investment, within the context of industrial strategy. The latter – in a simpler form – reflects the earlier Erwin and Gelb analysis and seems to be an inward-looking import substitution model (with restructuring of industrial production) and a technological policy – but now with a foreign capital contribution on terms set by the democratic State – consistent with dismemberment of conglomerates. Intrinsic to this is the view that the capital market does not sufficiently direct resources to critical areas of infrastructure. So there is a need to rationalize and restructure the financial sector to make for a more *ordered* and *directed* (my emphasis) flow of funds. Deregulation and (presumably) market-orientated monetary policy impede the attainment of these ends: what is needed is more direct State intervention, regulation, exchange control and possibly State ownership in the financial sector.

Since this paper was released, the welter of rhetoric and confusion over detail has continued: from Max Sisulu on controlling the actions of the financial sector, to Tito Mboweni seeking the "transformation of current relations of production" and redistribution of productive assets through "clipping the wings" of conglomerates to sever their financial connections which are believed to be in thrall to the groups. This, it may be said, is simply not true: in any event there is legislation preventing such influence. Numsa and ANC spokesmen have referred again to nationalization of "certain sectors", although it is difficult to know whether they were referring only to the area of public utilities and preserving the existing State sector. It is not known either whether Mrs Thatcher's reported strictures to Mr Mandela – if you want prosperity, drop nationalization – will have any effect. But what is known, despite all the confusion in understanding what is already in existence – like a competition (e.g. anti-trust) policy and highly progressive personal taxation, for example – is that the abysmal growth record and minimal investment are perceived to be due to a failure of the market system and its financial mechanisms, as evidenced in part by the so-called "paper chase" on the JSE. One way or another, as Slovo affirmed in Business Day, and more recently in the Financial Times, the State must have control of the engine which drives our economy. Indeed, as Erwin reportedly said subsequently, the channelling of investable funds through State action to overcome a perceived failure of the market is integral to achievement of a promised "new growth path".

How all this can be reconciled with recognition of the role of private capital – domestic and foreign – and international rejection of discredited sectoral industrial strategies reminiscent of Mussolini's corporatism is another matter. Moreover, the approach seems to imply that the process of development can be telescoped by the instantaneous transformation of a developing economy through governmental mechanisms, and that the inducement to invest can be manipulated at will. In order to dispel these misconceptions, and particularly those that relate to the apparently differing behaviour of the real and financial sectors, we have to appreciate why we are in a situation on which a radical critic can seize as confirmation of his belief that capitalism and apartheid are bedfellows. We must then demonstrate that it is not the system that has failed, but the distortions that flowed from apartheid – and then sanctions – which have brought us to this crisis point and created fertile ground for simplistic interpretations to suit the interventionist book.

A statistical analysis of selected economic and financial variables enables the following observations to be made:

Annual Average Growth in Real Capital Stock over Three Periods

1960 – 74 Most sectors grew relatively fast in terms of net investment, with manufacturing in the lead, followed by community, social and personal services (CSP). Financial investment was the lowest.

1974 – 81 Electricity and mining led, but manufacturing was still high, followed by CSP and then financial.

1981 – 89 Mining remained relatively high but there was no addition to capital in manufacturing at all. Financial investment came third after electricity, with CSP last on the list.

Gross Domestic Saving and Net Domestic Investment as Percentage of GDP

The trends from 1960 – 89 show that it is not savings that have been inadequate (although they could have done better) but net investment, i.e. gross domestic investment less depreciation at replacement cost, which is another way of saying that, especially since 1974, a declining proportion of savings has been available for additions to new capacity. To explain this, a starting point is to isolate the contributions to net investment (i.e. leaving depreciation and replacement investment out of the picture).

Savings and Net Investment

From 1970, the lack of growth and recent decline in personal savings, the swing to dissaving by government since 1983 and the surge in corporate savings against a background of a decline in real net investment are evident.

At this point we should note that, looking at this at face value, our critic would say

a) the pattern of investment is all wrong – there is too much investment in electricity and finance (the latter comprising office blocks, shopping centres and so on) and a shrinking industrial base

b) all the savings are concentrated in the corporate sector and are being misused – those go up and investment goes down. So the answer is to intervene in the disposition of those funds and make investment increase again, and exactly in the areas desired by the State, in its wisdom.

Apart from the implicit rejection of the allocating role of the market in a properly-functioning free enterprise economy, this perception conveniently ignores the fact that in earlier growth periods rapid net investment was possible only by supplementing domestic savings with foreign capital. Of course, GDP growth itself generates savings, but in an open economy such as ours, with imports linked mainly to investment, the foreign element is crucial to lifting the growth rate to the 5% – 6% levels or higher. With a net outflow, as we have experienced since 1985, growth has been severely constrained, a large proportion of savings being required to finance the disinvestment (reflected in the need for a current account surplus), as revealed by analysing the financing of gross domestic investment.

In any event, if capital has been wastefully used because it has been priced too cheaply, and government priorities have been wrong, this is a matter for correction by overall economic policy, as already accepted and being implemented, inter alia, through positive interest rates. Be that as it may, the impression of a financial structure biased away from the needs of growth, employment and social services is confused even more by other developments which have made the situation more difficult to appraise.

The growth of contractual versus discretionary savings has enlarged the role of long-term insurers and pension funds in the mobilization of savings. While thousands of individuals share in the long-term benefits that disciplined saving can bring, and workers themselves become major investors in financial as well as industrial mining enterprises via pension and provident funds, the perception is created that the concentration of contractual savings leads to a socially undesirable pattern of real fixed investment, or too little investment in general.

To the extent that the greater proportion of savings has been in contractual form because of tax advantages which may be considered unduly favourable, then this requires attention. Yet it must be remembered that direct tax has risen from 8% of GDP in 1960 to 13% in 1989 and that indirect tax has only recently caught up to redress this imbalance. Moreover, of the direct impost, personal tax has trended up over the years and, after the necessary relief in 1980, surged from under 4% to almost 8% of GDP since then, the impact of bracket creep being felt mostly on the middle to higher income groups. We may well ask whether, with a different dispensation, the system could have delivered the immense flows of savings that have been generated, noting the inverse relationship between personal savings and personal taxes.

However, the question of the appropriate balance between contractual and discretionary savings is a difficult one and rests now with the Jacobs Committee. In any event, we must not confuse the problem of the channelling of savings with the resultant pattern of investment. The curious argument has now emerged that institutional (and corporate conglomerate) investors are necessarily more conservative than banks and building societies, which are the real entrepreneurial risk-takers in lending, especially to smaller businesses. This apparently arises from the reduced role of the stock exchange as a vehicle for raising new capital and the related pressure on the prices of existing (mainly blue-chip) shares by institutions seeking to protect policy holders and others rather than investing positively in new ventures.

This is a false argument. To the extent that the pressure of institutional funds has been reflected in rising share prices (the paper chase) at times of low real growth there are understandable reasons for this phenomenon. But the fact that demands for additional capital – via new issues – were stagnant until last year reflects a particular set of circumstances – poor growth generally and curtailment of real investment opportunities as a result of demand-dampening measures forced upon the authorities largely as a result of sanctions themselves. Although there had been a new listings boom in the abnormal market circumstances of 1986/7, the value of capital raised was relatively modest. Last year, with a typical lag after the recovery in investment in 1987 and 1988, the value of new issues of equities on the stock exchange soared more than sixfold to R6 billion (excluding Iscor).

Even if these were largely in the form of rights issues by the large houses, the funding so achieved had favourable impact on the banking system, and its ability to expand credit. Indeed, funds are not sterlized within the financial sector, but find their way back into the system to support the overall level of demand. There are no surpluses waiting to be tapped which exist independently of the state of the total economy, the balance of payments or structure of interest rates at any given time. Moreover, the fact that large conglomerates were responsible in the main for the raising of new capital on this occasion must be interpreted according to their important venture capital role and the well-established criteria for assessing the benefits of size; especially in relatively small economies.

Analysis of some financial trends gives a perspective of this problem:

Industrial Share Prices

After years of relative stagnation from 1969 to 1976, prices took off in an apparently spectacular manner. However, the surge, and the periods of correction in the eighties, can be related to varying effects of the gold price, value of the rand, interest rates and corporate earnings, against the background of an inflation rate well in excess of 10% per annum during the period.

On balance, it was perfectly rational for institutions to endeavour to protect the value of the funds entrusted to them through investment in hedge stocks, for example. Stripped of inflation, share prices are about the same as they were in 1970. Thus, capital values remained intact, but no more than that, whereas real GDP was larger.

Institutional Funds

The fluctuations in share prices, poor performance in real terms and variability of earnings over cyclical phases (with a decline in corporate profits now emerging, for example) allied to a rising trend in interest rates in the eighties, with growing emphasis on maintaining positive returns, has led to a higher proportion of institutional funds being invested in money market securities, i.e. financing short-term borrowing directly or indirectly via bank and building society deposits. This has been especially marked since 1985; in fact, cash and deposits constituted 18% of the total assets of pension funds and long-term insurers in 1989, as compared to 6% ten years earlier. Larger corporations have at times been over-liquid too, depending on cash flows at a time of reduced investment opportunities, and this liquidity is similarly deployed. The rechannelling of institutional funds back to the retail banking system may be regarded as a problem in some respects (e.g. the wholesale rates charged and the belief that some of the funds should have flowed directly to the banks and building societies in the first instance), but, this issue aside, it is a reflection of a shift to the demand for short-term finance in inflationary conditions characterized also by relatively high consumption and low investment which has impaired the role of the stock exchange as the vehicle for new capital. As we have noted, this has nothing to do with the mechanism of the new issues market itself.

Corporate Profitability

Furthermore, the relative lack of investment demand – and thus new issues for capacity growth – in constrained conditions must be related to the general decline in profitability: The ratio of net operating surplus to remuneration of employees has fallen from 60% in 1960 to 40% in 1989. Unit costs have risen far in excess of productivity to make South African industry progressively less competitive internationally, especially vis-a-vis the fast-growing economies in the East, as wages have increased faster than profits which, as an after-tax source of new investment, are eroded as a result of depreciation being allowed only on historical cost.

Thus, it is contended that the minimal growth in net real investment (mirrored in the unsatisfactory GDP record) is not due to the failure of the savings system or the mechanism of allocating funds. It reflects decades of inappropriate socio-economic policies. There is no reason to believe that, with the elimination of the distortions of inflation and incorrect priorities, and in a climate of renewed growth, financial institutions would not respond in the conventional way to the demand for new capital from corporate enterprises, through new issues of marketable securities, thus reaffirming the stock exchange as a prime vehicle for long-term finance.

Moreover, the argument that banks and building societies are the true entrepreneurial lenders to business – large and small – is at variance with the accepted principles on which our well-tried system is based. Banks may commit a small proportion of their funds to an equity risk, but the security of depositors demands that they remain as providers of working capital. Building societies, to the extent that they fund longer term, have scope to expand their housing finance, but with due regard to risk. It is not the availability of risk capital that has declined, but the scope for investment that remains after repaying foreign debt. Of course, social needs must be addressed. However, to enlarge the flow of funds from the financial system to cater for the needs of the neglected third world segment of our economy requires a fundamentally changed atmosphere.

This is the nub of the matter. Although Professor Lombard said in a recent paper to the Institute of Life and Pension Advisers that rapid growth required little more than the liberation of market forces from false guides and misplaced constraints (from the legalised system of separate development), the issue of restitution for a century of discrimination could not be ignored. Within a framework of a return of the rule of law to the economic sphere, he recognized the need to influence the flow and application of savings rather than restructure the ownership of existing assets. But this process would be in a context of sound macro-management to allow interest, wage and exchange rates to reflect relative scarcities as determined in the market, and tax rates which should not distort the effective use of collective or other resources. Inter alia, the emphasis would be on the liberalization of the financial markets, including those for foreign exchange, to realize these objectives. While conceding that the funds required for education, housing, etc would be greater than the private sector would supply voluntarily, the solution was seen in the extent of the "reform" divi-

dend, and an ongoing fiscal programme that would have to be agreed, possibly as part of a new constitution, in accordance with a market-oriented system, and limited government.

This approach does not seem to conflict with a recent Standard Bank paper on the role of the private financial sector in a future South Africa. Recognizing that a post-apartheid government will be tempted to interfere directly with the growth-creating process in general, and the financial sector in particular, it is urged that this should be resisted. While the efficiency of our financial system ranks high on a world scale, it has shortcomings that, for various reasons, have prevented an appropriate focus on the needs of the entire community. Yet, the Bank argued, redressing imbalances must not be at the expense of efficiency if a future South Africa is to mobilize international resources for productive advance. In essence, the system needs less distortion, not more, given a level playing field as far as possible. Progress can be made in improving allocations to disadvantaged sectors without impairing sound practices or returning to unwise policies of captive markets and controlled interest rates. The financial system must be allowed to serve as a positive instrument of growth, and it can do this only through the operation of the market.

Conclusion

The juxtaposition of these two approaches reflects the seriousness with which the challenge of ensuring growth while meeting the reasonable expectations of those who have suffered from years of discrimination is being taken. The nationalization debate is intrinsic to all this but, as with sanctions themselves, its negative repercussions have undermined the efforts to convince the majority that a form of central planning is no answer. The doctrinal divide is deep-seated, for good reason, and there can be no complacency on the side of those who – however justifiably – reject strategies for pervasive intervention in industry and finance. Yet the exigencies of the situation are such that it must be asked whether we can afford these anachronistic ideological indulgences any longer. The responsibility accepted by government and business is evidence of the readiness to tackle the daunting problems that beset the country. Much has been done already, but there could be many new initiatives in a spirit of goodwill and renewed commitment engendered by assurances that the path to an illusory socialist millenium has been abandoned. The international community also has a major responsibility in this respect. What is needed is to accept that the way ahead is to invite, not deter, investor confidence so as to spark the economic engine. Of course, the State has a positive role in setting the rules of the game, but the world-wide repudiation of statism validates the contention that the private sector must be the principal force in maximising growth and distribution. We dare not forget, as The Economist put it recently, that "bad government is the biggest single reason for poverty in the third world, and less government is the most effective single remedy".

Laurence Harris*

The mixed economy of a democratic South Africa†

As majority rule in South Africa becomes nearer increased attention is focused on what type of economic structure will be put in place after it is achieved. The African National Congress (ANC) is committed to a "mixed economy" but much speculation and pressure exists over the precise implications of this for South African and international businesses and for the people. It is fuelled by the fact that "the mixed economy" is a loose concept rather than a rigorous economic model so the term itself could be applied to the economic arrangements of countries as different as India, South Korea, Nicaragua, and Zimbabwe, or, within Europe, Sweden, Yugoslavia, Britain and West Germany.

What might the economic system of a democratic non racial South Africa look like; what is the implication of the ANC's "mixed economy" strategy for private and State ownership; for planning, markets, government regulation, and for running the economy in line with new priorities? In this paper I attempt to pin down the specifics of a mixed economy and examine some of the controversy that accompanies it. The paper concentrates on the economic nuts, bolts and transmission belts of the system rather than the politics surrounding it. Although most political discussion centres on the issue of State enterprise and the role of private ownership, the ownership of enterprises is only one aspect of the mixed economy.

Two points underlie this discussion of the mixed economy.

The first is that just as there are many different types of mixed economy, so South Africa already has one type of mixed economy and the programme of the ANC should be interpreted as aiming to construct a very different type. The existing system is a "mixed economy oriented toward capitalism"[1] and it could be argued that the ANC's strategy is to build a "mixed economy oriented toward socialism". But the existing mixed economy is not simply oriented toward capitalism. It is oriented toward the special South African form of capitalism which is based on apartheid, and the ANC's aim is to construct a mixed economy which overturns the economic basis and effects of apartheid. That aim will involve root and branch changes and will involve economic restructuring on a scale comparable to the post war restructuring of Europe.

The second is that South Africa's future economy cannot be considered from the point of view of its internal effects and dynamics alone, for South Africa cannot escape the influence of the world economy or its position in the Southern African region. On the one hand the new economic system has to be resilient enough to adjust to changes in world markets; for example, changes in the international prices of the minerals the country exports. On the other hand the goal should be outward looking in the sense of reconstructing South Africa's position in the world economy; for example, industrialising and modernising the existing base in order to establish the country as a major exporter of manufactured goods.

Since the notion of a "mixed economy" has largely been a political label, used to define positions in political debates, the next section looks at its political background. Then the paper concentrates on the concept as an explicitly economic model and examines four distinct economic dimensions of the mixed economy. The first dimension is ownership; the mix of State and private ownership. The second is the regulation of markets; are commodities to be bought and sold at market prices, or are prices and trading to be controlled and regulated by the State? The third is the role of taxation and budgetary policy. The fourth is the role of planning.

In the final section the timing and development of different aspects of economic restructuring are discussed, for in addition to having a long-term perspective on the type of system to be built, it is necessary to have a view on what are the most urgent policies to be implemented.

Several questions are omitted from this paper. The land question and agricultural policies have special characteristics and are not included here apart from the broad framework for food prices[2] and that is a serios omission for they will have a wide influence on economic development. Similarly, the important role the State welfare system will play in reshaping the social infrastructure is not considered in detail. And the possible mixture of alternative management systems, including workers' real representation on the boards of enterprises and embracing workers' cooperatives, is not considered although those alternative systems can shape the character of the mixed economy.

1. The Political Background

The question of state ownership and the future role of private enterprise has been a cornerstone of the attacks by South Africa's rulers on the ANC. Especially since the idea of a "total strategy" to defeat a "total onslaught" was developed, the liberation movement has been portrayed as a front for international communism. The explicit and implicit message is that its aim is to install an economy where all important sectors are State owned and State run. That message has partly succeeded, at times, in achieving the legitimation it was designed for. At home it did assist in bringing big business into the framework of the "total strategy" for a while after 1979 and abroad it was a significant element in securing the support of the Reagan and Thatcher administrations.

By the same token, since the historic first journey of South African business leaders to meet the ANC, the issue of whether or not an ANC government would nationalise significant sectors has been top of the agenda. The legitimacy of the ANC in the eyes of big business and Western politicians has increasingly turned on whether the ANC can be presented as having abandoned a former commitment to comprehensive State ownership and committed itself, instead, to a "mixed economy".

The ANC does, indeed, envisage a mixed economy, with both private and public sectors playing their role, as the basis of the new society. In a significant statement in 1987 the ANC said that to achieve the twin objectives of redistribution and high economic growth "the new democratic order will necessarily have to address the question of ownership, control, and direction of the economy as a whole to ensure that neither the public nor the private sectors serve as a means of enriching the few at the expense of the majority"[3].

In the context of today's politics the interesting point is that the commitment to a mixed economy is widely seen as a shift. As leaders previously opposed to the ANC increasingly recognise the democratic movement as the legitimate leadership of the nation they are able to claim that the ANC has moved toward a position of moderation marked by a commitment to a mixed economy. To support this emphasis on a shift, the ANC's commitment to a "mixed economy" is contrasted with

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the economic clause of the Freedom Charter with its statement that the mines and other monopolies will be transferred to "the ownership of the people as a whole". But in fact that clause has always been part of the ANC's commitment to a mixed economy. It coexists in the Freedom Charter with a statement that other industries will exist while over all the State will have the responsibility of ensuring their operations "assist the well being of the people".

Those general formulations are broad enough to have been applied to the types of obligations assumed by British governments from 1944 to 1979 in constructing and running the mixed economy of a few nationalised industries, a welfare state, and a full employment macro economic policy. But the political struggles in South Africa, and the regime's attempt to present its defence of apartheid as a defence of free enterprise, caused the ANC and the Freedom Charter to be seen as extremist. In contrast to that label, the mixed economy became, in turn, a political label promoted by previously hostile leaders to enable them to say that the ANC has become more moderate.[4] But it is not a static political label for the question of "what type of mixed economy?" has become a peg for powerful pressures on the ANC to resist a commitment to State ownership.

The idea of the mixed economy also has a political role which is more substantial than its role as a label in a world where ideologies and perceptions are changing. It is central to the question of State power and relates to whether the democratic movement finds, when it comes to power, that the State does have real economic levers under its control to reshape society. This is a fundamental question that underpins much of the discussion in the democratic movement over the future economic strategy.

It is well known that Afrikaner political power after 1948 went hand in hand with an expanded State role (including expanded State ownership) to reshape South Africa in a mould designed to secure economic, social and political power for Afrikaners and their allies.[5] Similarly, the control of the post colonial state has enabled the leaderships of all newly independent nations to use parastatals and other economic levers in their attempts to reshape their societies.[6] The democratic movement is strongly influenced by similar views of the need to secure and use State power by ensuring the State has a significant direct presence in the economy. The counterpart is that as the National Party increases its commitment to privatise existing State enterprises, the democratic movement fears that this will mean the State machinery taken over when majority rule is achieved will be a hollow shell.[7]

As a political notion the debate over the mixed economy has turned on State ownership and the position of the private sector. How much nationalisation will there be? Will private ownership of industry be secure? When we turn to the economics of the mixed economy it becomes clear that the amount of State ownership is only one aspect, and not always the most important aspect, of how such an economy works. The following sections examine it as one of four dimensions of the mixed economy.

2. State and Private Ownership

The discussion of the future role of State ownership in South Africa is taking place in the context of an economy which is already heavily dominated by State enterprise. The largest parastatals, Eskom, Iscor, SATS, Sasol, Armscor, have accounted for a high proportion of employment and investment and have had a key role in shaping the direction of the economy. In 1980 they, together with the rest of the State sector, employed 34 per cent of economically active whites and between 12 and 16 per cent of other groups[8]. Regarding investment, Eskom alone has accounted for over 40 per cent[9] of the economy's spending on new plant and machinery. Each parastatal has been strategic in shaping the apartheid-based economy: SA Railways created and ran the system that carried workers to the mines and from the townships to the workplaces; Sasol was designed to secure oil supplies (and chemical derivatives) especially when put at risk by sanctions; Armscor built South Africa's arms industry to defend apartheid and reduced the impact of the UN arms embargo; while from 1942 the Industrial Development Corporation invested in industries, particularly manufacturing, originally to fulfil its goal of building an industrial base on import substitution and, subsequently, to diversify exports.[10]

Nevertheless, the role of State ownership in the new South Africa needs to be discussed for, although a democratic South Africa would, at present, inherit a substantial State sector, it would be faced with the task of changing its role and the question of how large that sector should be. In addition, the National Party's present announced strategy is to reduce the amount of public ownership through selling State assets to the private sector (privatisation) so the inheritance of a large sector cannot be taken for granted and the question of the extent of public enterprises is an immediate one.

The question is usually posed in terms of whether the State sector should be increased through nationalisation of private enterprises. Taking the cue from the Freedom Charter, the specific areas concerned have been the banks, mining finance houses (especially the largest, Anglo American) and other conglomerates ('monopolies' such as Rembrandt). Adding such firms to the State sector would be quite consistent with a mixed economy.

Although the new South Africa would have many enemies claiming that such nationalisation proves the country has become a totalitarian, communist system, many countries firmly committed to capitalism have had mixed economies of that type. France built its post war economic miracle around a State sector that included major banks[11] and manufacturing and commerical conglomerates such as Renault; and Italy's mixed economy has had at its heart the banks, manufacturing, and commercial enterprises owned by the State and controlled by the Institute for Industrial Reconstruction (IIR).[12] From one end of the political spectrum those European nationalised sectors may be judged as a symptom of extreme socialism while from the other they have been categorised as crucial props of a capitalist system[13]. The question we can consider is not whether such nationalisations deserve one or another political label, but, considering them as an element in a mixed economy, what are their economic merits and disadvantages?

Economic Rationale of Nationalisation

The economic arguments for nationalising major enterprises as part of a mixed economy are summarised by the phrase used for decades by the British Labour Party in its programme for a mixed economy; it was committed to taking "the commanding heights" of the economy into public ownership. The idea was that in order to reshape the economy the State needs control of some sectors because they are commanding heights, influencing everything else, and in order to control them it is necessary to own them. In order for that argument to stand up we have to consider what is meant by the commanding heights; in what sense are some sectors or firms more commanding than others? And we also have to consider whether the only way or best way to control them is by nationalising them.

For a firm or sector to be classified as one of the commanding heights, size alone is not the key criterion: Coca Cola is one of the largest US corporations but neither it nor the soft drinks industry as a whole would be considered a key lever to be grasped by a Washington trying to reshape the US economy. The important characteristics are the functions, operations, and linkages of the enterprise.

One characteristic that can make an industry part of the commanding heights is the nature of the goods or services it produces. In many countries industries are counted as part of the infrastructure of the whole economy and nationalised because their products – electricity, coal, iron and steel, or transport services, for example – are used in almost every other sector. This argument for nationalisation is that public ownership is the best way to ensure that the crucial material inputs for all other industries are available to support the overall pattern of development that the State wishes to see.

The need for the State to decide how much should be invested in energy production, transport services and similar industries has been used as a rationale by many countries which have nationalised such infrastructural industries. Even in South Korea, the growth of export oriented private industry under the leadership and direction of the State was based on planned expansion in the State owned energy industry and public enterprises operated in steel and other metal manufacturing.[14]

In South Africa, the provision of key material inputs for industrial development and the strategic planning of their expansion has been one of the main roles of the parastatals and has been seen by Pretoria as a principal reason for their public ownership. The Electricity Supply Commission (Eskom) formed in 1922 is a clear example.

Throughout the industrial expansion following 1948 Eskom has, in a strategic fashion, planned the expansion of electricity supply to meet the projected needs of the new mines and factories and it was able to command the investment resources to achieve this. The task was giant, for the mineral based economy has an extraordinarily high degree of electricity input per unit of output, but Eskom ensured that electricity supplies grew by nearly 9 per cent per year from 1950 to 1974 and only slightly less fast into the early 1980s. In order to achieve this Eskom's capital investment programme continually absorbed a high proportion of the country's savings and foreign credit (being equivalent to nearly 42 per cent of net domestic saving in 1982).[15] The important point here is that it was believed that this strategic, planned development of electricity supply on a large scale was only possible by a State owned industry.

Securing supplies of key material inputs is of less relevance in considering the extension of nationalisation to new sectors since the major sectors of this type have long been in public ownership in South Africa. But it remains a consideration. One reason is that some of South Africa's major resources remain in private hands, especially coal; nationalisation of the coal mines may be justified in order to ensure the supply of coal as an energy source for the reshaped economy is secured. A second reason is that since the 1987 White Paper, *Privatisation and Deregulation in the Republic of South Africa,* and especially since the 1988 Budget speech, plans to sell (49 per cent) of the state's interest in Eskom and other public corporations have been developed.[16] As a result the government of a democratic South Africa may have to reconsider the ownership structure of industries which had been wholly State owned but recently part privatised.

A second characteristic warranting an enterprise being considered among the commanding heights to be nationalised is that it commands a high proportion of the finance available for investment throughout the economy. This is directly relevant to the question of whether the banks, mining finance houses, and other 'monopolies' should be nationalised on economic grounds. The main task of the post apartheid State will be to ensure that the economy's surplus is invested in new directions and in new ways in order to build a system that is not based on apartheid.

Until now, the profits of the mining finance houses have been the main source for financing new mining, manufacturing, and agricultural developments in the apartheid system. The profits of the other big conglomerates have performed a similar function. And the commercial banks have been the conduits for channelling these funds and others to investment in productive sectors (or into unproductive speculative activity). Nationalisation of these institutions could give the State direct control of this surplus and ensure it is invested wisely to restructure the economy. It can be argued that if these enterprises remain privately owned they will invest their funds overseas, in financial speculation, in socially undesirable projects, or in new mines, factories, and agri businesses using the old apartheid-based work processes.

The Anglo American Corporation (AAC) is often taken as a case in point because of its size, because under apartheid it has strategically used its huge funds to build and shape the economy, and because it is sometimes argued that AAC is now trying increasingly to move control of its profits abroad. Anglo American has been the foundation stone on which much of the apartheid economy has been built. The profits from its mining investments have at different times directly funded the great developments and turning points that have shaped the apartheid economy. A noteworthy example is the way that, after becoming the largest gold mining group and leading the expansion of the industry into new areas in the 1940s and 1950s, Anglo American took the decision to fund the expansion of South Africa's manufacturing industry in the 1960s.

Anglo American took the strategic decisions on how to meet the extraordinary financial needs of the new mines in the Orange Free State and, as a result, the huge post war expansion of gold mining, dominated by Anglo American, was achieved and underpinned the subsequent decades' expansion and profitability of the system. At the start of the 1960s the huge profits from the Free State gold fields and their declining capital needs led Anglo American to decide to invest in the modernisation and expansion of South Africa's manufacturing industry. Between 1960 and 1968 the value of Anglo American Corporation's own industrial interests rose nearly fivefold from around R50 million to R285 million. If we include the industrial holdings of the other big holding companies in the Anglo group (De Beers and Rand) the group's industrial holdings at the end of the 1960s are estimated to have reached R600 million.[17]

The result of Anglo having controlled and directed the investment of so much of the surplus generated in South Africa (and in the Southern African region as a whole) is that Anglo American Corporation and its affiliates and subsidiaries accounted for as much as 56 per cent of the total shares quoted on the Johannesburg Stock Exchange in 1983, while the next largest, Barlow Rand, accounted for only about 7 per cent.[18]

The economic case for nationalising Anglo American would rest to a large extent on the view that the huge power it has shown itself to have to shape economic development through its disposition of the surplus should be under the control of the State. And a similar economic case can be made for nationalising the banks and other giant conglomerates.

A third reason for judging that an enterprise should be nationalised as one of the "commanding heights" is that it has a direct and preponderant involvement in the employment of labour, for employment practices – hiring, firing, the organisation of production, and provision of training and housing – are based upon racial divisions and are at the heart of apartheid. This consideration relates especially to the mines and the largest manufacturing employers. Nationalisation can be justified on the grounds that such radical changes in the way these enterprises operate are necessary in order to eradicate apartheid at its roots that they can only be achieved under public ownership.

Problems of Nationalisation

There are, therefore, strong arguments for identifying some sectors as the commanding heights and nationalising them. But other economic considerations must also influence policy towards the roles of the public and private sectors. What are the objectives and operating rules of the future public corporations to be? There is little point to nationalising private firms if they are then run in the same way as they would have been by the private owners. And the existing public corporations will make little contribution to building a new society if their policies and directions are no different from what they were in building the apartheid economy. Will public ownership lead to great losses of efficiency compared to what can be achieved by private industry? And, will the costs involved in carrying out the nationalisation of private corporations outweigh the economic benefits?

The first question has been implicitly answered by the opponents of nationalisation arguing, as does Merle Lipton, that in the present stage of South Africa's development private capital itself is opposed to apartheid; if unfettered from the apartheid political system, it will change its practices (and is already doing so) so nationalisation and a State lead in a different direction is unnecesary or counter productive. The last two questions have been put firmly on the agenda by the supporters of private enterprise both in South Africa and internationally and, although their criticisms are often self interested, they indicate real problems with nationalisation that do need to be addressed. In these paragraphs we look at each in turn.

Nationalised industries have often been criticised on the grounds that they are inevitably inefficient. The theoretical basis for such a view is weak. It rests on the argument that only the profit motive can stimulate management and employees of large corporations to produce at minimum cost but both halves of that argument are weak: modern theories of the private firm suggest it may not operate in a profit maximising or cost minimising way[19], while the operating rules of nationalised industries can be structured to induce cost minimisation[20].

Critics of nationalisation often claim that experience supports their view; that, throughout the world, previously efficient private industries have universally been wrecked by bad management under State ownership. In fact, the record of nationalised industries in other countries does not support that view. Leaving aside successful State owned manufacturing organisations in continental Europe, the often derided State owned coal industry in Britain is, in fact, a good example of the benefits of nationalisation. The industry was privately owned until after the Second World War and suffered from low investment, low productivity, and backward technology. As a result of nationalisation the industry was restructured and reorganised in a way that private enterprise had not been able to achieve. Investment was raised dramatically and in subsequent decades several revolutions in technology were achieved. Between 1947 and 1982 labour productivity more than doubled despite the fact that deeper pits increased the difficulties (such as haulage distances) that had to be overcome. At the same time, public ownership led to huge improvements in working conditions; facilities for workers were expanded and modernised and the accident rate has been dramatically cut per man per shift (the crude figures are that fatal accidents were cut from 432 to 33 between 1947 and 1981).[21]

A stronger case can be made for arguing that nationalised industries have not generally been profitable (although there are several notable exceptions) but profitability is not always a good measure of efficiency. One reason is that profits are affected by prices and these have often been held artificially low by government or semi official policy. Sometimes this has been done to enable private firms to buy their output cheaply, at other times it has been an attempt to use the nationalised industries as the front line in anti inflation policy. If low profits result, it is not because the industries are publicly owned but because their prices are regulated; this highlights a general distinction between the roles played by policies on ownership and on regulation (which are discussed below). Another, major, reason why profitability is not always a good measure of efficiency is that high profits can simply result from low wages being paid to the industry's workers even though productivity is low.

Whether efficiency is defined as high productivity or high profit, it is in many cases the result of repressive controls over the workers. This is particularly relevant for South Africa. It is sometimes said that the gold mines and others should be left in private hands because their high efficiency and profitably would be destroyed by public ownership. But their high profitability has resulted from their apartheid roots. Features such as the migrant labour system, compound living, racially based wage differentials and job reservation have all contributed to high profits. Would a democratic South Africa trying to overturn apartheid's legacy want to preserve efficiency of that type? If private efficiency is based on operations rooted in apartheid, nationalisation to change the industries' methods could be justified even if productivity and profit suffers. In other words, efficiency is not a neutral technical measure and many would judge a mine to be more efficient if it had, say, lower profit but non discriminatory wages and better working conditions and safety.

All those problems relate to the comparison between the running of public as against private enterprises. The second type of problem concerns the act of taking industries into public ownership: will the costs of nationalisation be too great?

The most obvious cost is financial. If the existing owners are not going to have their assets simply confiscated where would the money come from to buy their firms and could the money not be better used for other purposes? The answer depends on what type of money is used, but there are difficulties attached to each.

The owners would want to be paid in foreign exchange but that is a precious resource which could alternatively be used by the government to expand health services for example, or to import capital equipment. If it is used to nationalise corporations the owners would profit by transferring the funds and investing abroad. That is what Anglo American did with the dollars it received from the government of Zambia's purchase of 51 per cent of the shares in its copper mines. The group put the money into one of its companies, Minorco, based in a tax haven outside Zambia and South Africa which invested them in the United States; that was the launching pad of an expansion of Anglo American's investment in the United States which has given the group the reputation of being the largest single foreign investor in the USA.[22] The costs of such a payment method would be formidable.

An alternative is to pay cash in rands that are not convertible to foreign currencies. If the government uses tax revenues for that purpose, those cash payments to today's business elite have to be weighed against the other potential uses for those limited revenues (such as expanding and changing health and education services). Instead, the government could use the Reserve Bank and the printing press to create extra rands to

finance the buy out. But it can be argued that such a huge injection of new cash into the economy would lead to inflation, and it would not reduce the economic power of big business, for the firms would have converted their existing ownership of productive assets into a pool of cash to invest in buying up other firms.

Another form of compensation would be to pay the owners in government bonds. If there were restrictions on their freedom to sell the bonds they would have converted their assets from ownership of enterprises to what, formally, are loans to the State on which they receive interest. The same effect may be achieved even without formally restricting the former owners' ability to sell their bonds, for the sheer size of their holdings of government bonds would make it difficult to sell them and government policy on interest rates in the future could increase those difficulties. This was the path followed by the British Labour government of 1945-1951 in carrying out its major nationalisations; the owners were compensated with interest-bearing government bonds and an active financial policy attempted to keep interest rates in general low initially so that the owners received low yields on the bonds.[23] This method avoids some of the costs of other forms of compensation but the new bond issue will have an impact on the country's whole system of finance (and on the accounts and management rules of the nationalised industries) which have to be taken into account.

Whatever method is adopted payment of compensation has financial complications. This does not mean that nationalisation of big business should be automatically ruled out, for all the great structural changes needed in the future South Africa will have major and difficult financial implications. The argument that the general effects on the availability and flow of finance should not be decisive can also be justified by looking at the opposite policy, privatisation, which has been pursued vigorously in Britain under Mrs Thatcher and is being promoted in South Africa and many other countries. The sale of large State enterprises to private investors involves diverting funds on a large scale from the other financial investments the private sector would have made, so that, as well as risking instability in the financial markets it has a cost in terms of the reduced availability of private savings to finance other investments. But governments committed to privatisation for other reasons have carried it through and found ways to minimise the financial disruption.[24] If nationalisation is desirable, its financial implications, too, can be tackled.

Nevertheless, the financial costs of compensating the former owners of nationalised industries are serious and ways of reducing them have to be examined. A radical method would be to nationalise without compensation or to compensate the existing owners at levels well below current stock market valuations of their assets. Moral arguments exist both for and against such a policy; against it is belief in the right to private property, while for it is the belief that the wealth controlled by big business in South Africa was produced by exploitation of the South African masses and should be taken back without full payment. But even if a political decision were taken to pay full compensation there are still great technical difficulties in deciding on the valuation[25].

Another way to minimise the financial cost is for the State to take over less than all the shares in the enterprises. Full legal control of corporations can be achieved by buying 51 per cent of its shares and this path has been followed by several newly independent countries. In fact the plans of the present South African government for privatisation appear to be to leave it in control of present parastatals by retaining a 51 per cent stake in the enterprises.

In a more innovative spirit, control of a company could be gained by requiring it to restructure its capital (shares and bonds) to create a special category of shares, owned by the State, which gives the State a veto over or effective control over company decisions. Such a "golden share" would represent a small proportion of the company's value, so obtaining it would involve low financial costs, but it would give the State key control over the enterprise's policy.

The Extent of State Ownership

Nationalising enterprises and running a State sector both involve difficulties and, although controlling the commanding heights brings important benefits, public ownership is not a panacea. Inherent in the mixed economy is the continued existence of a substantial private sector. In the discussion of South Africa's future it is nationalisation of a few key concerns that is on the agenda.

There is no doubt that private enterprises of different types and sizes can contribute strongly to the growth and restructuring of the economy. A particular strength is that, apart from the largest bureaucratised and protected firms, the private sector has qualities of flexibility that are difficult to build in to public corporations' operating rules. And in a situation where management experience is scarce, the administration of a large public sector may require a greater input of management than private firms.

As a result the issue for a mixed economy is how the public and private sectors are to complement each other. That turns on the question of the type of framework in which enterprises will operate. Will their actions and decisions be taken in response to market prices, will prices be set by the State, or will they be subject to a national plan? These questions apply to both public and private enterprises. To what extent will they be free to buy and sell at market prices and to what extent will those markets, or the enterprises themselves, be subject to government regulation? The answers will determine the way that public and private enterprises relate to each other within the whole framework.

It can be argued that the roles of the market, regulation, and planning are much more important than the degree of State ownership. Some supporters of the mixed economy as a means of achieving radical change believe that the act of nationalisation is so difficult and costly that the same ends as could, in principle, be achieved through public ownership should be achieved through *taxing the private sector, controlling key prices and regulating firms' operations.* Others have noted that nationalisation itself only changes the ownership of firms but does not necessarily change the way they operate or ensure they meet national goals[26]. Therefore the framework in which they operate is important for controlling both the private and the public sector. The next section examines the roles of the market and State regulation in the mixed economy. It does not lead to the conclusion that regulation would make public ownership unnecessary but it does outline a positive case for both the market and the State.

3. Markets, Regulation and Planning

In a mixed economy neither private nor public firms are free to do what they wish; many aspects of their operation are regulated by the State. In constructing the mixed economy in a democratic South Africa decisions have to be taken over the extent of those regulations. Looked at another way, firms in South Africa have historically been subject to a complex network of regulations, in the form of the laws and orders enforcing apartheid in the labour market and the whole economy, and the question is what should replace those regulations when they are swept away. Many leaders of business and finance are opposed to apartheid because of its restrictive regulation of business and wish to see it replaced by a *laissez faire* or 'free market' system where firms have few restrictions.[27] The ANC's commitment to a mixed economy is a different vision; one where State regulation of firms is used to reconstruct the economy and overturn the legacy of apartheid.

What should those regulations be; which are the most important ones? Not all areas of enterprises' operations can be tightly controlled, for that would effectively mean an economy run by the civil service where none of the benefits of competition and decentralised initiatives could be gained. Moreover, the administration of regulations places a heavy burden on the State both in terms of managerial and administrative resources and in terms of costs. So priority has to be given to setting up and running particular regulations.

Labour and employment practices have been at the heart of the apartheid system so priority should be given to regulating firms' employment policies including working conditions, workers' housing and welfare provision; regulations to radically and rapidly change the position of black workers are necessary to overturn apartheid's effects. They should ensure employees have the training provision necessary for rapid change, and that wage differences, job reservation, and all the discriminatory practices that have favoured whites are banned.

Should firms' ability to hire and fire be controlled? This is a contentious issue because employers often argue that they cannot really manage their firms and organise production efficiently if they are prevented from making workers redundant (as was the case in China and other socialist countries at one time) or if they have to go through a lengthy process of obtaining ministry approval before reducing the work force (as employers in independent Zimbabwe have had to). It is true that employers who have to obtain ministry approval for redundancies do have their flexibility of management restricted but that should not prevent such controls from being introduced. 'Flexibility of management' can often mean ruthlessness in the pursuit of profit which controls over hiring and firing have to eliminate. Those controls both protect workers from the worst effects of rapid changes in production and give a positive impetus to new styles of private sector management which in the long run are more efficient and rational and which are based on cooperation between employers, unions, and the State. They are likely to have an important place in a mixed economy and the task will be to design them in a suitable manner.

Controls over minimum wages are also highly contentious, for employers in many countries often argue that they prevent firms from hiring workers who, in the absence of anything better, would be willing to work for low wages. As a result, they argue, unemployment remains high, and high wages push up their prices or reduce profits. These arguments only affect employment whose whole existence is based upon the most exploited, cheap labour such as farms and small workshops. They should not be an impediment to minimum wage legislation to ensure that workers earn a decent wage, for the aim of the future mixed economy is to build economic growth on an expansion of employment in sound enterprises, not in firms that can only survive by paying poverty wages. Minimum wage legislation has its place as part of the overall package of measures designed to effect change in both production and employment practices.[28]

Some of the most important forms of regulation do not involve direct control of or intervention in firms' operations. They comprise government controls over market prices, for these affect the terms on which enterprises buy their inputs and sell their products. More generally they affect people's living standards, can shape the pattern of investment and economic growth, and influence foreign trade. As a result, after achieving independence all countries' post colonial governments have attempted to set and control the main prices in their economy. In the 1980s, however, there have been widespread moves toward removing such controls or making them more flexible. Most frequently such 'liberalisation' has been carried out within the framework of conditions imposed by the International Monetary Fund, under World Bank 'Structural Adjustment Programs', or under pressure from United States or West European government aid programmes. Bearing in mind these moves away from price controls, what role should State controls over prices have in the future mixed economy?

It is impractical and undesirable to control the prices of all inputs and products, but it is important for the government to attempt to control some crucial prices as part of its redirection of the economy. Three prices have such all-pervasive effects that the government should control them. These are the price of food (the staple food, maize or mealies), the price of foreign exchange (the exchange rate of the rand), and the price of credit (interest rates). And some others, too, have a significance that could justify controls being imposed.

Control of Maize Prices

The price of maize should be controlled because it strongly affects the cost of living for urban workers, the income of farmers, and the quantity of maize produced, exported or imported. If the government does not set the price (or control foreign trade) it will be determined by world market prices. Then factors such as the harvests of the United States and Soviet Union, the subsidies and trade policies of other countries, and the strategies of the multinational corporations that control the world food trade, will determine the price of maize in South Africa. If those forces lead to maize prices being low, urban workers in South Africa may benefit but at the cost of farmers suffering and of large imports; if they lead to high prices the result will be a fall in the real value of wages (and pressure for wage increases) although maize farmers will benefit. There is a danger that the trend over time would be for maize production in South Africa to be wiped out and the country would become dependent on imports since the prices received by those farmers would be too low although those prices are adequate for US farmers using advanced technology.[29]

In addition to the effects mentioned changes in maize prices will have important futher consequences for saving, investment, tax revenues and inflation. Since maize prices have such wide ranging effects on the economy there is a strong case for them to be set by the government, for the democratic State has the responsibility for shaping the economy.

This task requires care, for there are great difficulties in controlling food prices. Many countries have set food prices so low, in order to benefit urban workers, that peasant producers suffer and lose all incentive to produce the crop. Many have paid subsidies to keep the selling price lower than the price at which food is bought from the producer with the result that the State has to finance large subsidy payments and has to raise taxes or loans to cover them. To operate a subsidy system or price control of any kind a large State apparatus (such as a marketing board) has to be created and administered. Such problems have given weight to arguments that it is better to let crop prices be set by market forces.[30]

But the benefits of controlling maize prices outweigh the difficulties as long as the policy is designed in a way which minimises the worst problems. Prices have to be set so that, in conjunction with policies of land reform, rural credit, extension services and supply of agricultural inputs, farmers retain an incentive to raise output.[31] The importance of setting prices so that, together with other policies, they give adequate incentives for rural production, is recognised now in all mixed economies.and those with a socialist orientation.[32] And the difference between buying and selling prices has to be set so that the finance required for subsidies does not place an escalating burden on the public budget. That means that the price set by the government should not permanently diverge from market prices by large amounts and should be adjustable.

Control of Exchange Rates

The value of the rand, its exchange rate against the US dollar, the Deutschmark, or the yen, affects the whole of South Africa. A fall in the exchange rate raises the cost of imports which raises the cost of living directly and indirectly. A rise in the exchange rate raises the foreign price of exports which can cause firms producing exports to go out of business, and it makes imports cheap which can lead South African producers to be bankrupted by competition from a flood of cheap imports. The price of foreign exchange is, therefore, a price with a much wider influence than most. In a broad perspective, the exchange rate will fundamentally affect the place of the future South Africa in the international division of labour. For example, it will influence whether the country remains dependent on mining for its export revenues or whether an expansion of jobs in manufacturing is made the basis of growing exports. In a mixed economy, control over the exchange rate is a key lever in directing the economy.

The alternative to control over the exchange rate would be to allow it to be determined by bankers and firms buying and selling rands, and other currencies on the world's foreign exchange markets. But in a country where the State is attempting to control and reshape the economy in line with the people's aspirations allowing such a key price to be decided by financiers' operations must be unacceptable. In any case, in countries like Britain, where the government did claim to leave the exchange rate free in the early 1980s it is now generally accepted that such floating rates do not bring the economic advantages their advocates claim.

There are several methods for controlling exchange rates but all those applicable to South Africa will require support from controls over the quantity of foreign exchange that South Africans can buy and sell. Multiple exchange rates under which different rates apply to different types of foreign business should be administered. The present dual exchange rate differentiates between trade requirements and capital flows or speculative operations, but a different structure may be best and there should be tightened direct controls over speculative movements.

Administering exchange controls so that they are both effective and do not give rise to corruption is not simple, but the Reserve Bank already has a powerful and experienced apparatus. Another difficulty is that if South Africa's existing active market for foreign exchange (including, at present, a futures market) continues to exist, the State's control of exchange rates will require market intervention. If, despite exchange controls, there are net sales of rand pushing the exchange rate down below the target, the government will have to become a buyer and sell dollars in exchange for rand in order to bolster the demand for rand. And, as at present, may buy and sell in the futures market. If the government attempts to keep the exchange rate systematically above what it would otherwise be, those operations create a permanent drain on the country's budget and foreign exchange reserves, and they can create difficult technical problems for monetary policy.

Keeping the exchange rate systematically above the level private demand and supply would generate has also led many African countries to a situation where a substantial, illegal, parallel market in foreign currency develops with exchange rates well below the official rate. Then the official rate becomes ineffective and the parallel market's exchange rate distorts the pattern of trade and business.[33]

These problems have become a reality for many developing countries which have attempted to keep their exchange rate higher than private demand and supply would have placed it over long periods. They have been used by the International Monetary Fund (IMF) and World Bank when imposing large devaluations as part of stabilisation and structural adjustment programmes. Their argument is that devaluation brings the rate more into line with market forces and in many cases the policy has been to end State intervention altogether. For example, in Zambia and other countries the IMF has made the State sell foreign exchange to the highest bidder at auctions so the State has no say in its price over a broad range.

How can the future South African State take control over the exchange rate without running into similar problems? It is feasible as long as a two prong strategy is adopted. One is to use exchange controls to manage the amounts of foreign exchange the private sector is entitled to buy and sell. The other is to ensure that the exchange rate for imports and exports is not held rigid but is adjusted flexibly to ensure that, although its level may be different from the level that would result from unrestricted market forces, it is moved from time to time in the same *direction* as it would be moved by the demand and supply of currencies resulting from unrestricted imports and exports. That second prong helps to ensure that a significant parallel market does not develop. If, for example, South Africa experiences a worse inflation than its trading competitors, the commercial exchange rate should be adjusted downward to compensate partially or fully. If it is not, exports become too dear, imports become too cheap (but, because of foreign exchange controls, not available to all who want them), and there is a strong incentive for people to pay more than the official rate for foreign exchange in order to import unofficially.

Control of the Financial System

Foreign exchange controls and State regulation of the exchange rate are severe limitations over the activities of banks and other financial institutions. They give the State control over the crucial links between South Africa and the rest of the world that would otherwise be shaped by those powerful market operators. The State also has to take control of another crucial price in the economy that would otherwise be determined by the banks and financiers, the rate of interest. That means the whole set of different interest rates paid by borrowers and received by lenders and depositors.

The interest rate has a pervasive influence on the economy. Low interest rates could deter people from placing their savings in banks or lending them to the State. High interest rates can make it costly for firms to finance inventories, could deter them from investing in plant, can lead to firms going out of business or putting up prices (contributing to inflation), and can place a great strain on the State's budget since interest payments on State bonds will be high.[34] Because of its potentially key role the interest rate in a mixed economy has to be the responsibility of the State.

In setting interest rates the State is not only controlling the price of credit. Ultimately it is taking over from the financial system control over the amount and direction of credit. If the government sets the interest rate lower than it would be if banks and financial markets were unrestricted, borrowers will have a greater demand for credit than lenders are willing to lend so the available credit will have to be rationed. The government will have to direct, for example, that export industries or rural cooperatives or other priority sectors should have access to the cheap funds while others should have the availability of funds restricted or should have to pay higher interest rates.

Many governments have held down interest rates and in times of inflation yields have sometimes become negative in real terms. These policies have been criticised on the grounds that the yields on savings and the cost of capital to borrowers that higher or free market interest rates would generate would lead to better saving and investment decisions[35].

The idea of the mixed economy is quite different. It is that the State's direction of credit flows and priorities, which goes hand in hand with controlling interest rates, is the best way to guide economic development. The resulting expansion of investment in some sectors and its restriction in others is better than that which would be achieved by free market forces; the latter, for example, may lead to borrowing at high rates to finance the building of luxury housing while what is needed is low cost housing or investment in new factories. Controlling the direction of credit flows is simply another aspect of the State's control of the economy's surplus to ensure it is used to reconstruct the economy in a way which overcomes apartheid. Other countries have similarly used State control of credit to ensure investment is geared to a major restructuring for growth; the successful examples range from the centrally planned Soviet economy to the capitalist-oriented mixed economy of South Korea[36].

An increase in State control over credit and foreign exchange would be a severe limitation of the banks' freedom of action. At present South Africa's financial system is highly complex and sophisticated; it is more like London's financial system than that of a developing economy[37]. At its heart are transactions on the Johannesburg Stock Exchange, on the money market and on the foreign exchange market which are not directly connected to production and economic growth. Most stock exchange business does not directly provide credit to enterprises wanting funds for investment in physical assets, most money market activities do not directly generate or redirect new flows of funds, and much foreign exchange activity is speculative and not generated by the needs of foreign trade. The scope for banks and financiers to profit from such free floating, purely financial activities (often attracting the term 'speculative' or 'casino type') will be limited by controls over credit and foreign exchange, and they will be more limited the more comprehensive those controls are.

This has an important bearing on the question of nationalisation. Why nationalise firms if the same objectives can be achieved through controls and regulation? The fact that controls will reduce bankers' profits by restricting the scope for some of their most profitable operations shows the limits of private ownership with regulation. Privately owned banks are, of their nature, bound to attempt to restore their profitability, and that will lead them to try to evade the controls. This will not necessarily imply illegal activity, for the history of controls over credit in other countries (including the United States and Britain) has shown that banks are adept at financial innovation, inventing new financial instruments and operations which lie outside the controls. At times it could also include illegal activity; for example, at times of economic or political instability banks could well profit from facilitating illegal exports of capital. Whether legal or illegal, the potential for private banks and financial institutions to increase profits by undermining the system of controls suggests that public ownership may be a necessary complement to controls rather than the latter being an alternative to nationalisation.

4. Taxation and Budgetary Policy

Under apartheid, State expenditure has grown systematically, reaching approximately 40 per cent of gross domestic product (GDP) in the 1980s, and taxation has grown to reach almost one quarter of GDP. After democracy is achieved that large budget will have a major role in controlling the mixed economy. It will have a role in microeconomic decisions and the redistribution of resources, and it will be important in achieving macroeconomic balance.

The first role, microeconomic intervention, will mean that taxes, subsidies, and State spending are changed and used to redistribute resources to meet social and economic goals. This will require a complete restructuring of the tax and expenditure system in order to ensure that the taxes paid, the benefits received, and public services like education are not divided on racial lines. (That, in turn, will require a major change in the systems of local government finance.) And the progressivity of the tax and benefits will have to be brought into line with the new government's policies toward reducing inequalities in income and wealth.

In broad terms, those uses of the budgetary system mean the State is using taxation to gain control of part of the economy's surplus and direct it toward the priority uses. This strategy again leads some to argue that nationalisation is unnecessary because the State does not need to own enterprises in order to control the surpluses they generate. Again, though, there are grounds for thinking that public ownership of big businesses may be necessary in order to ensure the tax system works properly instead of thinking that taxes are an alternative to it.

One problem is that high taxes would blunt the profits that private firms rely upon whereas transfer of surplus to the State would not affect the enterprises' driving force in the same way if they were publicly owned. Another is that taxation of profits can drive firms to invent even more ways to avoid taxes. The greatest difficulty facing the Ministry of Finance will be ensuring that the great multinationals operating in South Africa do not transfer their profits abroad by false invoicing and other types of false transfer pricing. Transfer pricing is used by multinationals all over the world to evade taxation in countries where it is relatively high, or to evade foreign exchange controls and other restrictions.[38] It is highly effective and will be very difficult for South Africa's tax officers to counter. But taking effective control over multinationals' South African operations through nationalising them would help to prevent firms shifting their profit abroad and out of reach of the tax system.

The second role of the State's budgetary system is to ensure overall macroeconomic balance in the economy. In certain circumstances a large budget deficit can worsen the risk of inflation, lead to uncontrolled expansion of the amount of money in the economy, and worsen the pressures creating a balance of payments deficit. These are symptoms of imbalances between demands and supplies in various sectors, or between finance and production. They can generate both economic and political instability which undermine the government's strategy and priorities as several socialist states with mixed economies have found.[39]

One response is to view State budget deficits, or deficits in the current account of the State budget, as always and inevitably the cause of such instability so that the main task of budgetary policy is to reduce those deficits. That view can be seen at times in the prescriptions of the World Bank and International Monetary Fund, but it is faulty because it neglects structural imbalances and concentrates all policy on the overriding goal of reducing the budget deficit. The experience of Zimbabwe shows that such imbalances need not result from budget deficits since the combination of foreign exchange controls, high private sector savings, and effective financial intermediaries have made it easy to finance the budget deficit without worsening other imbalances.

Nevertheless the State's budget will have a central role in maintaining macroeconomic balance in the future mixed economy. Although reduction of the deficit should not be the overriding goal of policy, a strategy based on the assumption that the size of the budget deficit is irrelevant would not be appropriate to the mixed economy. Instead, the budget deficit should be seen as an active policy instrument. The State's job will be to determine the appropriate level of the budget deficit in relation to the prospective volume of private saving and investment, bearing in mind that the amount of private saving and investment, and the degree to which savings can be mobilised to finance the State deficit are themselves variables that the State can and should act upon.

5. Planning

All economies have some type of planning within them, either State planning or private firms' plans or, more usually, both. In the mixed economy envisaged for South Africa's future State planning will inevitably have a role; that much is implied by the State having the overall responsibility for the direction the economy is to take. However, the question is what type of planning will the State use.

At one extreme is the centralised, directive planning of every sector on the basis of material balances that characterised the Soviet Union for half a century from the 1930s. But there are many other types of planning that enable the State to retain overall influence while being consistent with a mixed economy and some have been used by socialist governments while others have been used in capitalist countries[40].

The roles outlined above for market prices, controls, and taxation add up to one type of planning framework. Under it the State has responsibility for the overall direction of accumulation or the use society makes of the economic surplus. That includes responsibility for ensuring that the economy does produce an investible surplus, or, in other words, deciding on the appropriate balance between society's consumption and its investment and planning to avoid macroeconomic imbalances between society's demand and its aggregate supply capacity. Controls over the markets and prices for food, foreign exchange, and credit, plus taxation policy give it that power. But within that framework the majority of prices in the system would result from market forces, and private enterprises would make their own production decisions.[41]

That type of planning system can ensure that society's resources are directed to the areas corresponding to its priorities. If it is decided that the priorities are to invest in the social infrastructure (schools, hospitals and other needs), in new export oriented industries, or in new agricultural developments, for example, that type of broad sectoral planning can achieve the goals while leaving everything to free market forces could not. At the same time, however, the absence of detailed, centralised planning covering every enterprise helps to overcome the difficulties inherent in planning. It leaves scope for the initiative and flexibility that private enterprise can display, it leaves room for price adjustments to help prevent the worst market imbalances, and it reduces the burden a comprehensive planning system places on administrative resources.

None of that means that such planning is problem-free. Advocates of market liberalisation would argue that it is harmful because any controls over key prices and intervention in key markets must lead to a less successful economy than a price system where private market forces determine the allocation of resources. That argument is false. Although planning in a mixed economy is not problem free the direction the economy would take as a result of untrammelled market forces would have much greater costs and disadvantages. That view has been validated by all countries that have achieved major economic and social restructuring in modern times.

6. Development of the Mixed Economy

This paper has outlined the structure of a mixed economy and some of the issues that will face a future democratic South Africa in building a new mixed economy. But the new economic system will not all be built immediately and the economy will face different problems at different stages while the system is being built. That raises two questions: what will the most urgent economic measures be after the transfer of power, and in what directions might the mixed economy develop?

The first question is sharply crystallised when phrased as "what will the new democratic government have to do on Day One of the new era?" Changing the tax system or developing the plan framework take time, but some tasks will be urgent. For example, tightening foreign exchange controls and restricting the financial system's operations will be necessary immediately in order to stem the flight of capital that will have already started. At such a precarious moment it may even be necessary to suspend the operation of financial markets although such tight restrictions should be seen as initial measures, open to reassessment, rather than becoming enshrined as the first building blocks of the future mixed economy.

It will also be urgent for the State to win the confidence of private capital as well as the workers. That often expressed need is a problem, for 'confidence' is undefined, and, claiming that such measures are needed to restore their confidence, business leaders can push the government further and further to adopt policies which give business the equivalent of a free market system. The best way to deal with the problem will be to confront it head on by the State taking the initiative in defining confidence building measures and some of these will have to be taken at an early stage. For example, a clear definition of policies toward nationalisation and the terms of compensation should be promulgated soon after the transfer of power to prevent uncertainty and remove the basis of destabilising rumours.

The second question is, like the first, a recognition of the fact that no mixed economy is a comprehensive, fixed system. As well as being built in stages, once it is substantially built the new type of mixed economy in South Africa will be subject to great pressures for change. On the one hand, there will be forces pushing it toward a more socialist system with more public ownership and more detailed planning. On the other hand, as many governments have found during the 1980s, there will be powerful forces pushing toward weakening the role of the State and freeing markets to give greater scope for private capital.

Although the underlying forces pushing in each direction are complex and deep rooted, each is likely to find its rationale in the difficulties of market intervention in a mixed economy. The problems of controlling private market forces can lead toward socialist policies of greater public ownership or toward capitalist advocacy of abandoning that interventionist strategy. It is beyond the scope of this paper to speculate on those future changes. The only point to note here is that the mixed economy is not a fixed system but changes as it is shaped by economic and social forces, and, equally, the State should treat it as an adjustable economic programme rather than a rigid system.

That issue brings us back to the point made at the beginning of the paper: that there are different types of mixed economy, some of which are oriented toward capitalism while others are oriented toward socialism. It raises the question of what the difference is between those two broad types, and that is a question which needs urgent clarification if it is the case that the perspective of the ANC and the Mass Democratic Movement favours a socialist orientation in the mixed economy. To conclude this paper, I would suggest three broad criteria for distinguishing between those types. The first is which classes hold effective economic power (either through their political representation in the State or directly through organisations such as trade unions and the supervisory boards of firms). The second is what direction does the economy take in the use of its investible surplus; are all decisions driven by profit criteria or are investments undertaken on a significant scale to meet social needs and non profit criteria? The third is the extent to which the economy simply responds to the pressures of the world market and world capital flows or to which it maintains enough autonomy to shape both its internal development and its place in the world economy.

Notes

1. Republic of South Africa *Report of the Study Group on Industrial Development Strategy* (Kleu Report) Pretoria, Government Printer, 1983, p 32.
2. EROSA *South Africa's Agriculture* EROSA Economic Assessment Paper 7, June 1988.
3. ANC Statement 8 January 1987.
4. Similarly W European adherence to mixed economies was a political stance generating legitimacy in the cold war context.
5. Merle Lipton is one of many authors who have documented this process. In relation to building economic power through control of the state from 1948 she writes: "The Nationalists used their powers of patronage to favour Afrikaans business interests. Central and local government authorities shifted their accounts from English to Afrikaans financial institutions such as Volkskas. Governement contracts were steered to Afrikaans companies. The IDC [Industrial Development Corporation], state instrument for encouraging expansion of manufacturing, entered into joint enterprises with private Afrikaans companies like Federale Kunsmis. The expanded state sector and parastatals such as Iscor, Foscor, and Sasol were used as training grounds for Afrikaans entrepreneurs." Lipton, M (1986). *Capitalism and Apartheid: South Africa 1910-1986,* Aldershot, Wildwood House, p 283.
6. See, for example, sender, Smith, J and SM (1986). *The Development of Capitalism in Africa* London, Methuen.
7. EROSA "Long Term Business Strategies", 1988.
8. Lipton, M (1986). *Capitalism and Apartheid: South Africa 1910-1986,* Aldershot, Wildwood House, p 236.
9. EROSA *South Africa's International Trade & Trade Policy* EROSA Economic Assessment Paper 1 June 1987.
10. Republic of South Africa *Report of the Study Group on Industrial Development Strategy* (Kleu Report) Pretoria, Government Printer, 1983; Innes D., *Anglo American and the Rise of Modern South Africa,* London, Heinemann, 1984, Ch. 7.
11. See Lipietz, A (1988). "The Limits of Bank Nationalisation in France" in Harris, L., et al. *New Perspectives on the Financial System,* London, Croom Helm.
12. Vernon, R and Aharoni, Y (1981). *State-Owned Enterprise in the Western Economies,* London, Croom Helm, Chs. 5, 6, 7.
13. Bolton, D (1985). *Nationalization: A Road to Socialism?* London, Zed Books, Ch 1.
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15. EROSA *South Africa's Electricity Industry and Policy* EROSA Economic Assessment Paper 3, June 1987.
16. EROSA "Privatisation and the South African Economy", 1988.
17. Innes, D (1984). *Anglo American and the Rise of Modern South Africa* London, Heinemann, Chs, 6, 7, 8.
18. Lipton, M (1986). *Capitalism and Apartheid: South Africa 1910-1986,* Aldershot, Wildwood House, p 242.
19. See, for example, the seminal contribution, Williamson, O.E., *The Economics of Discretionary Behaviour: Management objectives in a Theory of the Firm,* Englewood Cliffs, Prentice Hall, 1964.
20. Vernon, R and Aharoni, Y (1981). *State-Owned Enterprise in the Western Economies,* London, Croom Helm.
21. Fine, B and Harris, L (1985). *The Peculiarities of the British Economy,* London, Lawrence and Wishart, Chs. 5, 6.
22. Innes, D (1984). *Anglo American and the Rise of South African Capitalism,* London, Heinemann, pp 235-6
23. Dow, JCR (1964). *The Management of the British Economy 1945-60,* Cambridge, Cambridge University Press, Chs II, IX.
24. Veljanovski, C (1988). *Selling the State,* London, Weidenfeld and Nicolson.
25. For an instructive example concerning the 1977 nationalisation of shipbuilding and aerospace in Britain see Veljanovski, C (1988). *Selling the State,* London, Weidenfeld and Nicolson, pp 72-75.
26. Bolton, D (1985). *Nationalization: A Road to Socialism?* London, Zed Books.
27. This view finds frequent expression in the pages of the *Financial Mail.*
28. This is not to deny that minimum wage rules pose sharp dilemmas because the alternative type of employment takes time to construct. A much publicised illustration comes from Zimbabwe in the mid 1980s where a raising of minimum wages for domestic servants led rich families to dismiss servants surprisingly widely; social goals favoured the decline of domestic service, but in the absence of new types of employment this caused hardship for many. However, those problems do not outweigh the benefits minimum wage laws give in the form of protection from abuses.
29. EROSA *South Africa's Agriculture,* EROSA Economic Assessment Paper 7.
30. Bates, RH (1981). *Markets and States in Tropical Africa,* Berkeley and Los Angeles, University of California Press, World Bank, *Accelerated Development in Sub Saharan Africa,* 1981; World Bank, *Toward Sustained Development in Sub Saharan Africa,* 1984.
31. Supporters of *laissez faire* would argue that this would lead to South Africa producing things it could buy more cheaply from abroad, thereby losing the benefits of comparative advantage. However the benefits of comparative advantage are open to many theoretical criticisms both in pure models and in relation to the actual world economy. See, for example, Edwards, C (1986). *The Fragmented World,* London.
32. Fitzgerald, EVK and Wuyts, M (1988). *Markets Within Planning, Socialist Economic Management in the Third World* London, Frank Cass, Nolan, P (1988). *The Political Economy of Collective Farms,* Cambridge, Polity.
33. See Wuyts, M (1988). *Money and Planning for Socialist Transition the Mozambican Experience,* London, Gower, for a discussion of the relation between financial policy, parallel markets and those markets' impact on accumulation.
34. For two viewpoints that oppose each other through emphasising different selections of these effects see Fry, MJ (1988). *Money, Interest and Banking in Economic Development,* Baltimore. Johns, Hopkins, and Taylor, L (1983). *Structuralist Macroeconomics,* New York, Basic Books. The general view taken by Fry is also a theme of the World Bank in *World Development Report 1989.*
35. See Fry, MJ (1988). *Money, Interest and Banking in Economic Development,* Baltimore. Johns, Hopkins, McKinnon, RI (1973). *Money and Capital in Economic Development,* Washington DC. Brookings, or Lombard, J. 'Monetary and Fiscal Policy for South Africa as a Developing Economy: With Special Reference to the Optimal Allocation of Savings for Employment Growth' Institute for Social Development, University of the Western Cape, Lausanne Colloquium.
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37. EROSA *South Africa's Internal Finance and Financial Policy,* EROSA Economic Assessment Paper 6 June 1987.
38. OECD *Transfer Pricing and Multinational Enterprises,* Paris, OECD, 1979; Lall, S (1973). "Transfer Pricing by Multinational Manufacturing Firms" *Oxford Bulletin of Economics and Statistics,* August, Fleck, FH and Mahfouz, R (1974). "The Multinational Corporation: Tax Avoidance and Profit Manipulation via Subsidiaries and Tax Havens" *Schwezerische Zeitschrift Fuer Volkswirtschaft und Statiistik,* p 110, pp 145-159; Murray, R. *Transfer Price, Multinationals and the State* (unpublished).
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Ronald Bethlehem*

Nationalisation and redistribution in the perspective of restructuring†

In January this year, before he was released from prison, Nelson Mandela made it clear in a public statement that it was still ANC policy to nationalise 'the mines, banks and monopoly industries' of South Africa. He also said that any change or modification of such a policy was 'inconceivable' although subsequent statements by ANC spokespeople have suggested that the organisation is more concerned about achieving some degree of 'social control' of industry than with nationalisation per se. Clearly, what worries the ANC is inequality, and to deal with this an ANC controlled State would need resources, although how nationalisation or social control would provide resources has not been spelled out.

This article has two purposes. Firstly, it aims to put the whole nationalisation-redistribution matter in South Africa into perspective in order to promote a rationality of debate. Secondly, it is concerned to argue that economic restructuring in South Africa, no less than in other industrial societies, need not be the sole responsibility of the State. Indeed, given the generally ideological and bureaucratic nature of the State, any initiatives it might take on the matter of inequality are bound to be discouraging to the business community. As an allocator of scarce resources, the State is rarely known for its efficiency. More important is the punitive action the State may feel bound to take in order to appease popular demands for a redistribution of either income or wealth. The danger is that punitive action would aggravate a flight of both capital and skilled manpower and so could result in further economic deterioration. This would be in no one's interest and least of all in the interest of those redistribution was intended to benefit.

II

It needs to be observed, right at the outset, that nationalisation is but one form of wealth redistribution and that wealth redistribution, in turn, is but one form of economic restructuring. In South Africa, a restructuring of the economy has become necessary for a number of reasons, economic as well as political. Apartheid, it is true, has distorted economic development and this requires correction. But such development has also been distorted by other factors over which recent South African governments have had little or no control. These have included the nature of the historical change from precolonial to post-colonial government, the course taken in South Africa by industrialisation, the heavy dependence that has emerged on gold production, and also demographic change. Such change, in particular, is in the process of radically transforming the very nature of South African society. Whereas at the turn of the century, whites comprised nearly 49 per cent of the total urban population and Asians and coloureds another 22 per cent, with blacks accounting for only 29 per cent, by the year 2000, that imbalance is likely to be dramatically reversed. Blacks, then, in the cities, can be expected to outnumber whites, coloureds and Asians combined by around 3 to 1, ie 27 million to about 10½ million. It is this demographic restructuring which is driving both political and economic change. In other words, economic restructuring has to be viewed in broader perspective with demographic restructuring as an inescapable reality and political restructuring as an essential precondition given the internal fact of conflict and the external fact of sanctions. Without political restructuring, a proper economic restructuring, will almost certainly not be possible.

III

There is common cause amongst political and economic analysts that South Africa is an unequal society. Whites, generally, live in circumstances not dissimilar to average living conditions in the US or Australia. A flight over the more affluent northern suburbs of Johannesburg will reveal an incidence of suburban swimming pools that is probably to be seen nowhere else except in exclusive parts of Los Angeles or Sydney. On the other hand, blacks generally live in rural or township squalor similar to the conditions of deprived communities in other parts of sub-Saharan Africa and Latin America. Only a minority have achieved the kind of economic emancipation that can be described as middle class in Western terms although in limited areas of places like Soweto their presence is steadily increasing.

The inequality of South Africa needs to be described statistically. Whereas over 80 per cent of all white households could be categorised as belonging to an income class exceeding R16 000 (approximately $6 000) per annum in 1985, only 5 per cent of black households could be so classified. In contrast, 38 per cent of black households fell into the income category of under R3 000 (around $1 140) per annum and 62 per cent into the category of under R5 000 (around $1 900) per annum. Only 3 per cent of white households earned less than R5 000 per annum in that year. Put differently, in the 0 – R2 999 per annum category, 85 per cent of all households were black and only 2 per cent were white, while black households comprised only 10 per cent of the plus R16 000 per annum category and white households 79 per cent. Such income differences have, of course, to be linked to differences in wealth ownership but data relating to this are not readily available. 87 per cent of land ownership is white but the percentage of white ownership of other forms of wealth is almost certainly higher. The ANC is on record as having mentioned a figure of 98 per cent. This cannot be a scientific statistic but were the actual figure to be only 90 per cent, it would be close enough to the truth not to matter. In 1975, the latest year for which data are available, South Africa had a gini-coefficient of 0,68. This compared with gini-coefficients of between 0,35 and 0,41 for Western industrialised countries and coefficients of between 0,50 and 0,60 for most semi-industrialised countries. The gini-coefficient quantifies income inequality on a scale of 0 to 1 independent of population size or average income level.

IV

What is the best way to deal with inequality? In contrast to the ANC's preferred solution of nationalisation, the business community would argue for economic growth. This, also, would accord with sound economic reasoning. For example, between 1970 and 1984 (the last year for which racially classified statistics were available for the mining industry), the black share of total non-agricultural income in South Africa rose from 20,1 per cent to 29,6 per cent, an improvement of almost 50 per cent, while the black share of total population rose from 70,4 per cent to 72,7 per cent, an increase of only 3,3 per cent.

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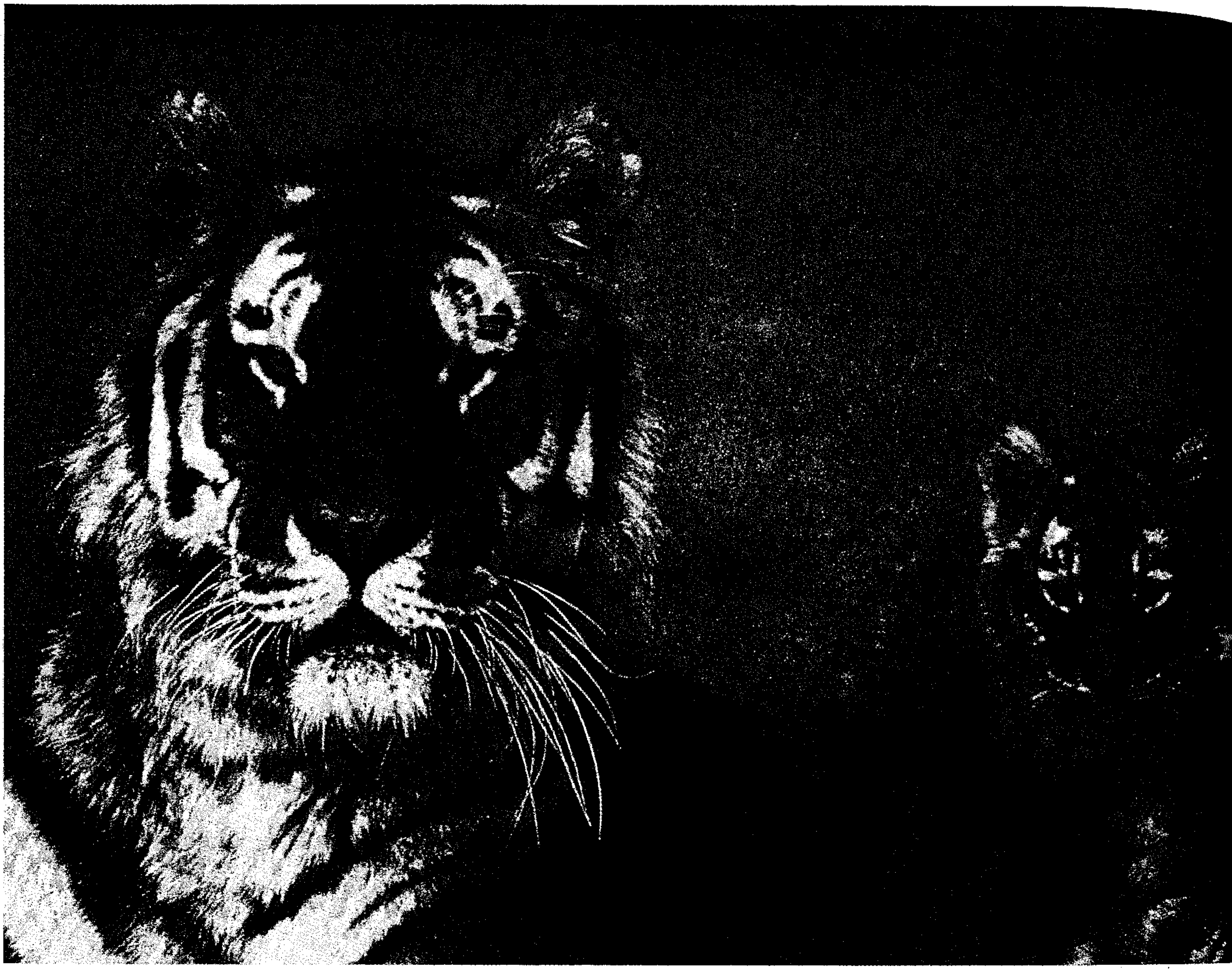
†Based on a paper presented to the Achievers symposium on nationalisation, 25 April 1990, Sandton Sun Hotel, Johannesburg.



However, growth today is trapped by politics. Because of unrest and because of sanctions, South Africa is denied the foreign savings it needs for the financing of a sufficient level of new capital formation. As a developing country, it does not have enough domestic savings and should logically be an importer of funds. Instead, it has been forced to be a net exporter of capital losing over R20 billion during the last five years in debt repayment and unregulated capital flight. To grow on a sustained basis, South Africa needs an inflow, not an outflow of money, but money will only flow in if there is growth. It is a cruel catch-22!

The failure of growth in the 1980s needs to be contrasted with the country's growth performance during the previous three decades. In the 1950s, 1960s and 1970s, growth on average, measured in terms of real GDP, clearly exceeded the growth of the economically active population as the following exhibit shows:

Exhibit 1

	Average Growth % pa		
Period	Employment	EAP*	GDP+
1950-9	2,4	3,0	4,4
1960-9	2,8	3,0	5,8
1970-9	2,0	2,5	3,1
1980-9	1,0	2,7	1,5

*Economically active population
+Real gross domestic product

Sources: Central Statistical Services, Pretoria
South African Reserve Bank
Development Bank of Southern Africa

In the 1980s this was reversed with serious consequences for general social and political stability. The average increase in employment during the decade amounted to only 80 949 per annum compared to the average EAP increase of 327 000 per annum. As a result, unemployment rose substantially, more sharply indeed than previously. Unfortunately, reliable statistics for black unemployment are not available partly because of the difficulty in defining such unemployment in the rural and informal economies. However, in the formal sector, it rose from 25,2 per cent of the EAP in 1960 to 37,0 per cent in 1980 and today almost certainly exceeds 40 per cent. Were real GDP growth to average only 1 per cent in the 1990s, the level at which the evidence suggests net new job creation stops, unemployment would increase by more than 2 million over-and-above what would have been the case had a growth rate of 3,5 per cent been sustained. Such a level of unemployment would amount to a staggering increase in misery because in the black community, for every employed person, there are on average between four and eight dependants.

V

The figures of Exhibit 1 indicate a disappointing rate of employment growth relative to real GDP growth for a country with such a high rate of population increase. What is the reason for it? Part of the explanation lies in the conflicting nature of South Africa's long term strategic needs. Trading around 55 per cent of its GDP taking imports and exports together, it has to give priority to its foreign trade competitiveness. This frequently means favouring a capital rather than labour intensive investment policy. On the other hand, the internal need, because of demographics, is for job creation. Throughout the period of the last forty years, the capital/labour ratio in South Africa has risen steadily encouraged also by monetary and wage policies that have cheapened capital relative to labour as a competing factor of production. Policies that have favoured negative real interest rates to promote capital formation have been part of the problem. Policies that have favoured the raising of black wages to an extent not justified by productivity improvements have been another. Ironically, too, sanctions have made the problem worse because they have compelled South Africa to give greater attention to its export competitiveness. To hold market shares with sanctions has frequently meant having to cut prices and this has compounded the trend towards labour-saving investment. Equally ironic is the fact that industrial action by black trade unions, often politically rather than economically motivated, has contributed to the bias in favour of capital intensity.

VI

That a sustained high level of economic growth, with the right capital/labour mix, could contribute significantly to a diminution in inequality, is illustrated by Exhibit 2. At a 1 per cent per annum rate of increase in real GDP, net new job creation, as already indicated, stops. This means that the whole of the increase in the EAP is added to unemployment. At a 3 per cent per annum increase in real GDP, job creation improves

Exhibit 2

Increase % p a			000s	
GDP+	EAP*	Jobs	EAP	Jobs
1,0	3,0	0,0	479	0
3,0	3,0	2,0	479	193
5,5	3,0	4,5	479	479
7,5	3,0	7,5	479	907
8,4	3,0	8,4	479	1 062

* Economically active population
+Real gross domestic product

Note: Figures show average annual increases, based on differing assumptions (see text), for the decade 1990-1999.

to around 2 per cent per annum. This is approximately the experience of the last three years, viz 1987, 1988 and 1989. Were real GDP growth to increase to 5,5 per cent per annum and were the capital/labor ratio to be reduced, job creation could rise to 4,5 per cent per annum at which level EAP and employment increases would break even. With the right external economic circumstances (ie, favourable world economic growth plus rising metal and mineral prices), South Africa could, given its own internal economic and political restructuring, sustain a rate of real GDP increase of 7,5 per cent per annum at which level job creation begins significantly to exceed EAP growth. It would require a sustained real GDP growth rate of approximately 8,5 per cent per annum matched by a similar increase in the rate of job creation to eliminate unemployment altogether by the end of the century. This must be regarded as improbable even under the favourable circumstances just described. However, any real GDP growth above 6 per cent per annum, if sustained, would begin to roll back poverty in South Africa. This is by no means impossible were the specified requirements for such a growth rate to be met.

The above arithmetic needs to be borne in mind when considering economic policy. One thing above all must be avoided. Neither government nor other protagonists in the political power struggle should set unrealistic goals or encourage unrealistic expectations. That is a sure route to discredit and to ultimate disappointment. However, they also should not ignore what is possible of achievement if politics can be accommodating and external economic conditions become favourable.

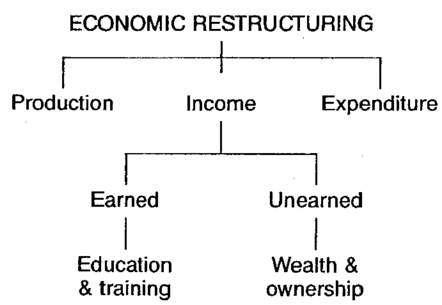
South Africa is presently an exporter of capital when it logically should be an importer. The initial boost to its economic performance would be considerable were this merely to be changed. With a rich mineral base, a well developed infrastructure, an advanced and modernising industrial sector and a third world population impatient for the improvements that industrialisation can provide, its growth potential should be considerable, and better than a host of other countries in sub-Saharan Africa, South America and in Asia. This, foreign investors periodically acknowledge in their scramble for South African investments when metals and mineral prices improve.

VII

The argument of this paper is that a political restructuring of South Africa is a necessary although not a sufficient condition for an improvement in the country's economic performance. Fortunately, the way has been opened for an orderly political restructuring to take place. However, an improvement in economic performance will itself depend on a restructuring of the economy. This is now desirable for reasons which extend beyond the ideological agenda of the ANC or other parties in the liberation struggle. Changes have occurred in the global economy as well as within South Africa itself which make economic restructuring urgent.

Economic restructuring concerns all aspects of the national accounts. The restructuring of production (argued as being necessary by economists of the left) cannot be considered separately from a restructuring of expenditure, and a restructuring of expenditure cannot be considered separately from a restructuring of income. In its turn, a restructuring of income has to take account of a distinction between earned income (linked to qualifications and skills) and unearned income (taking the form mainly of rent, interest and dividends). The restructuring of earned income will have to address the restructuring of the whole system of education and training in South Africa. The restructuring of unearned income will have to address the restructuring of wealth, ownership and control. This analysis is illustrated in Exhibit 3.

Exhibit 3



Restructuring becomes necessary when environmental change occurs that makes an existing order unsuited for the task for which it was designed. Politically, restructuring has become essential because demographic developments, changes in relative economic power and changes in attitudes have rendered the existing constitutional order in South Africa anachronistic. The tri-cameral parliament was an attempt at accommodation to such change, but it has itself been overtaken by events. Many would argue that it was flawed at the start. Be that as it may, even the government today accepts that nothing short of a comprehensive, non-racial democracy in a united country is needed for a return to normality. The debate now concerns how that democracy needs to be structured having regard to the country's special circumstances. This is what negotiations between the government and the ANC will be about.

As far as economic restructuring is concerned, the same applies: environmental change, externally and internally, has rendered the existing system anachronistic. Externally, the global economy has changed making it necessary for South Africa to adjust. Internally, there have emerged large and serious imbalances which are already feeding back into the socio-political situation in a destabilising way. These imbalances mainly concern such areas as housing, education and health but also concern other aspects of the economy such as the balance of payments, government finance and the price level. The changes relating to the world economy concern 1) the emergence of a global market system over which no single country or even group of countries such as the G7 can exercise effective control, 2) the decline of the nation state and the emergence of regional groupings of countries in order to meet new challenges to productive efficiency and environmental management, and 3) the role now being played by multinational corporations in global economic development.

All the main internal imbalances relate to differences between black and white. In the area of housing, an acute shortage of black accommodation exists. Where the average number of persons per unit is around 3,5 amongst whites, amongst blacks it now exceeds 13. The shortage amongst blacks amounted to 538 000 units in 1985 and is set to rise to over 3 million units by the year 2000 even if no improvement in the number of inhabitants per unit occurs. In education and health the picture is much the same. Against the extreme shortage of black accommodation have to be set surpluses of white accommodation. Declining white numbers have resulted in many white schools and whole wards of formerly white hospitals having to be shut down. The future growth of retail and wholesale trade in South Africa is going to have to depend on the black market which already accounts for more than 50 per cent of total sales.

These are internal dimensions of the required restructuring of production. Yet they cannot be viewed in isolation. As a country with a heavy dependence on export earnings, whatever restructuring occurs will have to address the fact that South Africa is a price taker, not a price setter, in the global markets with which it is concerned. Moreover, the prices of such commodities as gold, platinum, nickel, copper, antimony, manganese, ferrochrome, uranium, coal, maize, sugar and wool are subject to often extreme fluctuations. The same is true of the costs of trade finance and of exchange rates. South Africa could not return to a system of a fixed gold price and fixed exchange rates even if it wanted to, and its restructuring will have to accommodate that fact.

As far as the restructuring of expenditure is concerned, a few brief observations are necessary. As a developing country with a high rate of population increase, South Africa, like other developing countries, has a deficiency of domestic saving relative to its need for capital formation and its financing. It should, therefore, logically be in continuous deficit on the current account of its balance of payments with that deficit offset by capital inflows from savings surplus countries. Denied capital inflows, South Africa is bound to restructure its expenditure away from consumption towards investment. It is noteworthy that the largest increase in consumption expenditure has taken place in the State sector. In 1950, government consumption accounted for only 9,3 per cent of gross domestic expenditure (GDE). It accounted for 19,2 per cent in 1988. Generally, government expenditure rose from 16,5 per cent to 26,3 per cent of GDE between the two years, and if the expenditure of State owned enterprises is included such expenditure now significantly exceeds 30 per cent of GDE. These figures reveal an alarming tendency although the expenditure level is not abnormally high compared to other countries. The tendency is alarming for two reasons. Firstly, it reflects a crowding out of the more efficient private sector, something undesirable in itself in a country where the wastage of scarce resources is a problem. Secondly, with political democratisation, the pressure is bound to increase significantly for still higher levels of State spending on black housing, education and health services. Unless, therefore, there is a withdrawal of the State from other areas of the economy, total State spending as a proportion of GDE could soon exceed 40 per cent. That is one reason why privatisation rather than nationalisation, as Mr Mandela has proposed, is necessary. Increasing saving relative to consumption and reducing the public sector relative to the private sector while at the same time accepting a higher absolute public sector expenditure in major, critical areas of the economy will require the kind of restructuring that can only really occur in a strongly growing economy.

As already noted, the restructuring of production and expenditure cannot be separated from the restructuring of income, and this, in turn, has two aspects, namely, earned income and unearned income. In considering earned income, two aspects again need to be taken into account, the demand side and the supply side, which relate respectively to the restructuring of the labour force and the system of education and training.

The demand side presents some exciting possibilities. South Africa presently suffers from an acute shortage of skilled manpower while simultaneously being burdened by a surfeit of unskilled manpower. A growing economy will demand that this imbalance be corrected. What these possibilities are is suggested by a comparison between the labour structures of the US and South Africa.

Exhibit 4

Percentage of total labour force	US			SA
	1900	1970	1980	1980
Professional, technical & managerial	10,1	24,7	32,5	8,8
Clerical & sales	7,5	23,6	29,8	14,6
Craftsmen & operators	23,0	30,6	32,3	18,6
Unskilled	59,4	21,1	5,5	58,0
Total	100,0	100,0	100,0	100,0

Sources: US Department of Labour
SA Central Statistical Services

The remarkable similarity between the labour structure in South Africa in 1980 compared with the US structure in 1900 suggests that if South Africa follows a course of development similar to that of the US, it will move towards a labour structure at some future time not unlike the US labour structure in 1970 or even 1980. Simple arithmetic shows that in comparison with 1985 an only slightly modified South African labour structure would require an extra 2¾ million people in the first three categories by the year 2000. That such numbers could come from the white population alone, or even from that population together with coloureds and Asians and then supplemented by immigration is beyond possibility. Only by drawing the black population into the modern economy can such a transformation of the labour structure occur.

It is the supply side that will largely determine whether or not it does. The supply side is concerned with the restructuring of the education and training system, and therefore with the generation of skills. Unfortunately, there is at present in South Africa a serious mismatching of the output of the educational system and the requirements of the economy. Two problems need to be identified. Firstly, as is the case in other countries, the US included, the level of the literacy and numeracy of school leavers falls far short of what commerce and industry require for basic functioning. Secondly, too many non-technical graduates are being produced; too few are the graduates with an adequate knowledge of maths and science. In particular, there is a serious deficiency in the numbers of artisans being trained while resources are being wasted in producing university graduates unqualified for any specific future economic role. Less than one per cent of the pupils who enter the educational system eventually achieve a university exemption matriculation, yet the matriculation examination is the focal point of the system.

Of course, the demand and supply sides of the labour equation cannot be separated. Even were the problems of the educational system to be solved so that the numbers of matriculants increased and the quality of their education greatly improved, there would be no assurance of their finding work unless the growth rate of the economy coincidently improved, and improved greatly. The figures already quoted above indicate a shortfall in excess of 250 000 per annum between the increase in the economically active population and the current rate of job creation. Such a discrepancy means an addition of one million to total structural unemployment every four years!

Finally, there is the matter of the restructuring of wealth, ownership and control. This could prove the most difficult restructuring of all although that need not be the case. That such restructuring is controversial has been demonstrated by Mr Mandela's references to nationalisation and redistribution. How else, the question may be asked, can a proactive government give to 'have not's' without at the same time taking from 'have's'? Surely it is not possible to make an omelette without breaking eggs? This appears to be the attitude of the ANC leadership. Their advocacy is not punitive State action for its own sake, or even non-punitive State action which seriously damages the South African economy while attending to the needs of the masses. They regard, however, those needs as a priority and know that they will be bound to satisfy mass expectations or face the risk of being replaced by others prepared to make exaggerated promises.

It is a harsh dilemma for there exists no fairy godmother to wave a magic wand and convert, in a moment, half of twenty-seven million illiterate people into high earning, first world professionals. Yet something most assuredly will have to be done in the new South Africa to demonstrate that the interests of the masses are now being addressed. The ANC has acknowledged that the day after liberation is unlikely to be much different from the day before. This may be so in terms of current tangible realities; it does not have to be true of attitudes or expectations. Unless the masses are given hope for the future, it will be difficult in a post-apartheid society to sustain the hopes of others.

It is the argument of this article that the reassurance the masses require of their interests being addressed will best be provided by a restructuring of ownership. Moreover, this can happen in a manner which is benign and not destructive of business confidence. Indeed, the business community might be persuaded to see that its self-interest is bound up in effecting such a restructuring for otherwise it is set on a collision course with the black majority (the great majority of its workers and customers!) over whether socialism or capitalism is the best future system for the country. Unless the business community acts on the matter of inequality to make punitive redistribution on the part of the State unnecessary, the State, eventually, may be bound to act by nationalising. Mr Mandela has sounded a warning. It is a warning which needs to be taken seriously.

The point that requires emphasising here is that it is not only the State that has a role in restructuring. It is a socialist misconception or dogma to assert that the State alone is qualified to re-organise the economy. In a market system, the restructuring of production, expenditure, income and ownership is part of an ongoing process. Price fluctuations restructure all the time. But restructuring can also be the consequence of strategic decision. Mergers and takeovers restructure ownership; so does privatisation, and so does disinvestment, as has been demonstrated in South Africa's case since the US Comprehensive Anti-Apartheid Act of 1986 triggered a flight of US companies from the country. What is needed in current circumstances is an added racial restructuring which provides for a greatly expanded participation of blacks in the entrepreneurial sector.

In South Africa, as already acknowledged, the business community and the broad masses of the people have different notions as to which economic system best suits the country's needs. The socialism vs capitalism debate is real and potentially diversive. However, neither socialism nor capitalism today are capable of strict definition and so the debate, in academic terms, often reduces to a nonsense. What is important is that South Africa retain its market economy, and a market economy should be flexible enough to accommodate both ideologies. Particularly since the collapse of the centrally planned, command economy of the Soviet bloc and the elevation in June 1989 of 'market socialism' by the Socialist International to a new dogma, the gap between 'socialists' and 'capitalists' has been narrowed. Even the South African Communist Party has been forced to revise its objectives and policy.

Whatever the response of US readers to these ideas, and one suspects that there will be many who will regard them with discomfort and suspicion because of an ingrained anti-socialism, one matter is clear. The de facto relative non-participation of blacks in South Africa in the entrepreneurial economy constitutes a real problem for the survival of capitalism in the region. Such non-participation, particularly when contrasted with other examples of black economic empowerment in recent years (for example, in the areas of organised labour and consumerism), must predispose blacks to the argument that socialism, whatever its empirical defects, will better serve their interests. In other words, black non-participation in the entrepreneurial economy amounts to nothing less than a structural defect which must be corrected if the market economy, let alone capitalism, in the country is to survive at all. It is a defect which will only be corrected by an ownership restructuring along the lines described here.

What forms should such a restructuring of ownership take? That is a difficult question to answer. Almost certainly it will have to take many forms. A start should be made with home ownership, with converting present black rentpayers into black repayers of mortgage bonds. Other forms are likely to include share incentive schemes and joint ventures between large corporations of the formal sector and small emerging black businesses of the informal sector. But because black socialists will not be jawboned out of their ideological preferences and because they will remain numerous and important, some forms will also have to include joint ventures between capitalist and cooperative enterprises. No doubt there will be room too for joint ventures between the major conglomerates and the State, and for the extension of stakeholder trusts along the lines of those established by the Ford company and Coca Cola before they disinvested. What is essential is that blacks be brought into the entrepreneurial economy as quickly as possible and in the greatest possible numbers. If they cannot be accommodated into capitalist structures because of ideological resistence, then business must be prepared to work in alternative ways to accommodate black preferences. In doing so the criterion should be the efficient management of scarce resources, not whether an enterprise conforms to socialist or capitalist stereotypes. There is no reason why a supermarket, organised as a consumer cooperative, should not operate as efficiently as a supermarket organised as a limited liability company. And if, in a formative period, the former is linked to the latter contractually to provide for a secondment and training of management, the likelihood could be increased. A problem of particular difficulty will concern the critical shortage of black management skills. These will take time to develop.

VIII

With President F W de Klerk's lifting of the ban on the ANC and other political organisations on February 2, 1990, the way has been opened, as has already been noted, for a political restructuring of South Africa. The futility of continued confrontation and conflict has been recognised by both major players in the political power struggle. But political restructuring will not be enough without a restructuring also of the economy. Particularly important in this regard is a normalisation of South Africa's relationship with other countries in the southern African region. Only in regional context will South Africa's own economic restructuring be capable of realisation. Against the background of changes in the global economy, the countries of southern Africa must find their future together.

However, despite President De Klerk's initiative, perhaps indeed because of it, huge problems remain or have arisen which could block progress towards a better future. Four deserve separate identification:

1) Township children (ranging in age from 8 to 20 years) whose lawlessness and radicalism have put them beyond the control of parents, teachers and the authorities, perhaps even beyond the control of the ANC and the PAC themselves. (In South Africa, over 60 per cent of the black population is under the age of twenty!)
2) The rightwing Conservative Party and its allies, the support for which (mainly amongst Afrikaners) today probably approaches a million voters out of a total white electorate of 3 200 000. (In other words, the majority of Afrikaners today support the CP not the NP!)
3) Homeland leaders and their tribal supporters who see not only their jobs and pensions threatened but their lives also with the rise to militant legitimacy of the black liberation movements.
4) The Inkatha-ANC conflict. (This today is the core of the open warfare in Natal. Inkatha, the one million strong Zulu-based movement of Chief Mongosuthu Gatsha Buthelezi, is fighting a determined battle to retain support against the UDF, an ANC organisation, in its own territory.)

Each of the groups referred to here is large enough to derail reform if they are prepared to use violence to accomplish their objectives. There is reason, therefore, to temper whatever optimism one may have about the future with caution. Already, in mid-April, violence has increased not only in Natal but elsewhere. If it is orchestrated, the culprits would likely include those who would lose by any National Party-ANC cooperation in a future government of national unity the task of which would be to oversee the negotiation of a new non-racial democratic constitution. Such a government of national unity has now become a real possibility. The gap between the NP and the ANC has narrowed dramatically with both committed to a democratic non-racial political solution in an undivided country and also to an acceptance of compromise that negotiations would necessitate. A government of national unity would provide South Africa with a unique opportunity to restore its economy and so to avoid the destiny of development failure that for other sub-Saharan countries has seemed unavoidable.

Mike Roussos*

The place of nationalisation in the economic policy of the ANC

Introduction

In the last few months, there has been extensive debate about the nature of the post-apartheid economy. Since the ANC and SACP were unbanned, the policy of the alliance has been widely debated. During this time, there have been many attacks on our policy. Many of these attacks have been aimed at the policy of nationalisation. The debate around this issue has often gone much further – with those who are against our policy claiming that nationalisation is part of a package of 'socialist policies' that have failed all over the world.

The purpose of this paper is to try to separate off the many distinct issues that have been mixed up in this process. The paper will try in section I, to explain what the liberation alliance's economic policy is – in broad outline. Section II will explain what we mean by a mixed economy. Section III will look broadly at why there is a need for a redistribution of (i) wealth (ii) income and (iii) development in our country. This section will touch on the need for affirmative action to achieve this. Section IV will then examine the existence of a large monopolised sector of our economy – what this is and what effects it has. Finally, section V will look at nationalisation as one possible means of intervening in the economy.

Section 1

What is the Economic Policy of the Alliance?

There are two guiding documents that we need to refer to; the Freedom Charter and the Constitutional Guidelines. Beyond that, there are the many statements that have been made by spokespersons of the ANC and the SACP.

Let us begin with the Freedom Charter. Under the heading 'The people shall share in the country's wealth', the Freedom Charter says:

> 'The National Wealth of our country, the heritage of all South Africans, shall be restored to the people;
>
> The mineral wealth beneath the soil, the banks and monopoly industries shall be transferred to the ownership of the people as a whole;
>
> All other industries shall be controlled to assist the well-being of the people;
>
> All people shall have equal rights to trade where they choose, to manufacture and to enter all trades, crafts and professions'.

Under the heading: 'There shall be work and security':

> 'The State shall recognise the right and duty of all to work and to draw full unemployment benefits;'

Under the heading: 'The doors of learning and culture shall be opened':

> 'Education shall be free, compulsory, universal and equal for all children;
>
> Higher education and technical training shall be opened to all by means of State allowances and scholarships awarded on the basis of merit;
>
> Adult illiteracy shall be ended by a mass State education plan.'

Under the heading: 'There shall be houses, security and comfort':

> 'A preventative health scheme shall be run by the State;
>
> Free medical care and hospitalisation shall be provided for all, with special care for mothers and young children;
>
> Slums shall be demolished and new suburbs built where all have transport, roads, lighting, playing fields, creches and social centres;
>
> The aged, the orphans, the disabled and the sick shall be cared for by the State;

The Constitutional Guidelines, released last year by the ANC as a guide to discussion, help to place these demands in a broader context. The introduction to the Constitutional Guidelines says:

> '. . . the effects of centuries of racial domination and inequality must be overcome by constitutional provisions for corrective action, which guarantee a rapid and irreversible redistribution of wealth and opening up of facilities to all . . .
>
> '. . . under the conditions of contemporary South Africa, 87% of land and 95% of the instruments of production of the country are in the hands of the ruling class, which is solely drawn from the white community.'

Clause (j) says:

> 'The State and all social institutions shall be under a constitutional duty to take active steps to eradicate, speedily, the economic and social inequalities produced by racial discrimination.'

Clauses (n) – (t) say:

> (n) 'The State shall ensure that the entire economy serves the interests and well-being of the entire population.
>
> (o) The State shall have the right to determine the general context in which economic life takes place and define the limits to the rights and obligations attaching to the ownership and use of productive capacity . . .
>
> (q) The economy shall be a mixed one, with a public sector, a private sector, a co-operative sector and a small-scale family sector.
>
> (t) Property for personal use and consumption shall be constitutionally protected.'

Having looked at those statements. let's try to summarise;

The alliance is clearly wanting to undo – or overcome – the social and economic effects of decades of racial discrimination. This implies that the new economy must be able to take action to overcome the gross inequalities and deprivation that have resulted from apartheid.

There is also a stress on the need to

* provide education
* provide employment for all (if possible) and
* provide for the unemployed
* provide health to all
* provide an adequate infrastructure – roads, electricity, transport etc for all
* provide for the aged, the orphans and the disabled

There is also a clear statement that says that the National Wealth shall be restored to the people, and that the mineral wealth, the banks and monopoly industries shall be transferred to the ownership of the people as a whole. This clearly implies that these sectors of the economy will be nationalised in some way.

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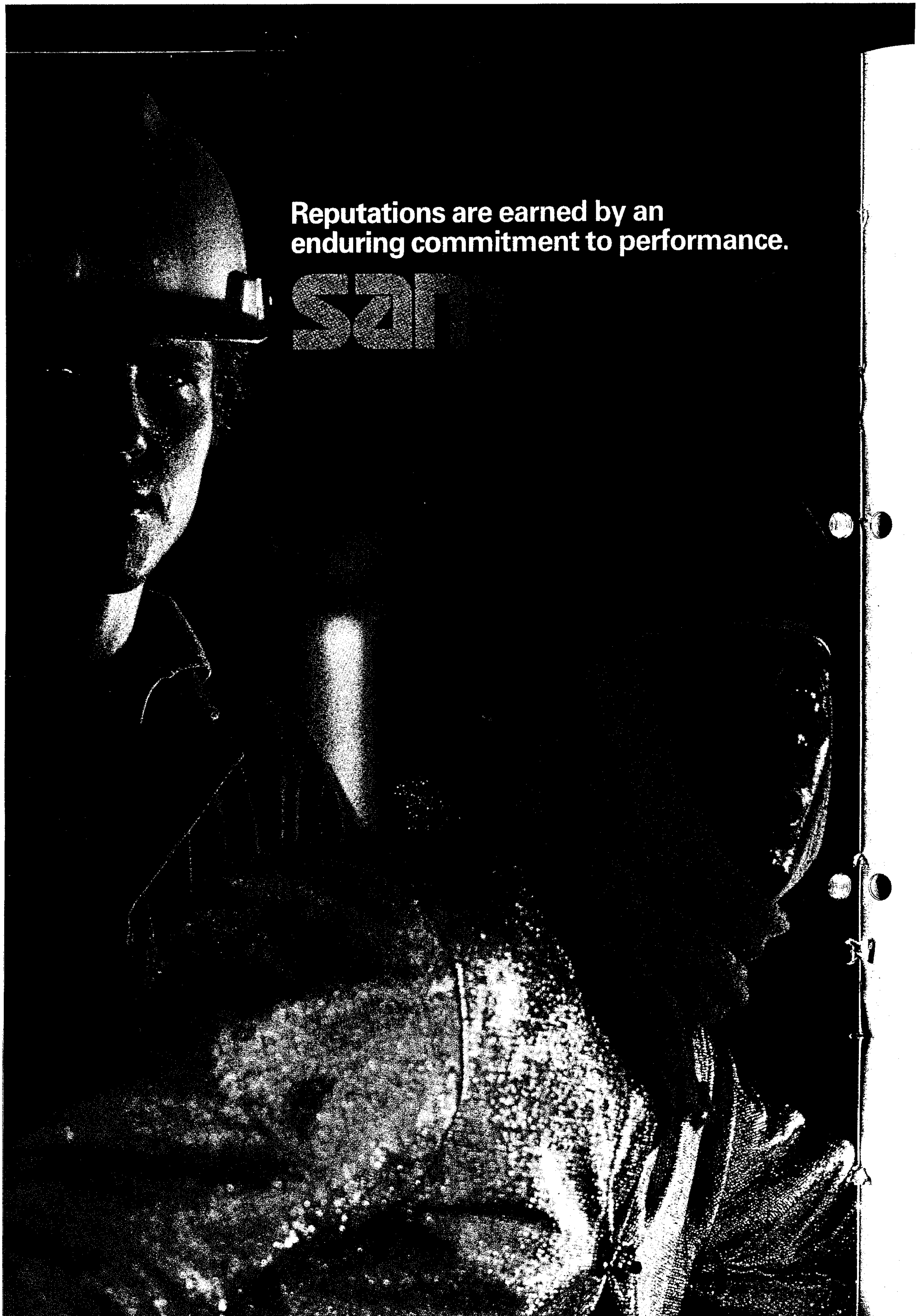

Reputations are earned by an
enduring commitment to performance.

Does this mean that the alliance is wanting to create a socialist post-apartheid economy?

To clarify this issue, we need to draw on some of the stated positions of spokespersons in the ANC and SACP at this point.

The ANC has always made it quite clear that it is *not* aiming for a socialist South Africa. It is a national liberation movement that is waging a struggle for national democracy. All the various sectors of our people who are committed to eradicating apartheid *and its effects,* are part of this struggle. This includes workers, students, unemployed people, subsistence farmers, small businessmen, taxi drivers, hawkers etc. This includes communists on the one hand – *and* those who are committed to a capitalist system on the other hand. From the Freedom Charter and Constitutional Guidelines we can see that the ANC could never accept a capitalist system that leaves intact the results of apartheid. It would be committed to State intervention to undo these historical injustices and inequalities. This implies it leans towards a capitalist economy that includes an active role for the State in guiding the economy (to ensure that the effects of apartheid are effectively tackled). Nonetheless, it remains a capitalist economy.

The SACP on the other hand, although part of the alliance under the leadership of the ANC, is committed, in the long-term, to the creation of a socialist society in South Africa. The SACP has made it very clear that it supports (as a first step) the creation of a state of National Democracy that will have the role of eradicating apartheid *and its effects.* It accepts that this State must be built by *all* the people within the broad liberation movement – which includes a range of classes and ideological perspectives. As such, it accepts that the post-apartheid South African economy will be a capitalist economy, that includes a large and active public sector, ie. a mixed economy.

In the long term, the SACP argues that the roots of apartheid oppression and exploitation – and the effects it has had on our society – will only ultimately be overcome within the framework of a socialist South Africa. Therefore, the SACP will continue – within a free democratic South Africa (characterised by a capitalist (mixed) economy) – to mobilise for a long term transition to a socialist society. It will attempt to persuade the people of South Africa that the state of national democracy can only fully eradicate oppression and exploitation by transforming itself (ultimately) into a socialist society.

To conclude this section, let us look briefly at how we define a capitalist system on the one hand – and a socialist system on the other:

A capitalist system – is one in which *private* ownership and control of the means of production (ie. the factories/mines/farms etc) are dominant. In other words, although there may also exist other forms of ownership – like co-operatives or State corporations (like Eskom/Sats etc) – the dominant form of ownership is *private.* This means that *individuals* own or control the majority of the factories/mines/farms/department stores etc. These individuals run these factories (etc) in order to make as much profit as they can for themselves and their co-owners.

A socialist system is one in which *collective/co-operative* forms of ownership (of the means of production) are dominant. This does not mean that there is no *private ownership.* People will still own their own cars/clothes/houses etc – these are not 'means of production'. There will also exist other forms of ownership of the means of production within the economy, like private ownership. But the *dominant* form of ownership will be collective/co-operative and the economy – as a whole – will be much more closely guided by the State than is possible in a capitalist economy.

Section II

What Exactly is a 'Mixed Economy'?

In the previous section, we stated that the policy of the alliance is to create a mixed economy. We also stated that this was a form of capitalist economy. To understand this fully, we need to understand what lies behind some of the terms thrown around in the debates about capitalism and socialism.

Advocates of capitalism will often talk about the need for 'Free Enterprise' or 'Free Markets'. They contrast this to the situation within socialist economies. The implication is that within a capitalist economy, the State stays out of the economy and the markets and entrepreneurs are 'free' to conduct business as they like. This is contrasted with a socialist economy where the State has a very large – or even an all-encompassing role. This is a rather bad attempt to "smear by association". Any discussion of the possibility of increased state involvement in the economy is smeared as "socialistic". Any discussion of a mixed economy is similarly smeared as 'covert socialism'. Although this may be a useful way of propagandising against something that one may find unacceptable, it is neither correct nor very honest.

There is a debate – amongst those who believe that a capitalist economy is the only way to go – about the extent to which the State should intervene within the economy.

There are some – on the one extreme – who argue that the State should have little or no role in the economy, that 'market forces' will result in the best possible distribution of resources in the society. The most extreme version of this position argues for a market where only small firms and small consumer groups exist. Because they are all small no one firm or one consumer group can affect the prices on the market. These people are arguing for a return to the days of *competitive capitalism.*

There are others who would argue that although capitalism is the best economic system, it does not make sense to leave everything to 'market forces' as the market is very bad at certain things. For this reason they would advocate a capitalist system with a varying degrees of State involvement in the economy. State involvement can mean anything from progressive taxes to redistribute some wealth – to State ownership of certain industries – to a high level of social services provided by the State for all its people (pensions, unemployment benefits, public health systems etc). Examples of societies with a high level of State intervention are the Social Democratic countries. They are still undeniably capitalist economies where private ownership predominates – but they also have a fairly large public sector ie. the section of the economy run by the State.

In the post-1930s depression period – and especially post-World War II – most capitalist societies around the world accepted that the State *had* to intervene in the economy to correct the imbalances created by the market. The extent to which the State should intervene – ie. the *size* of the State sector (public sector) and the *type of intervention* was a matter for very heated debates. The actual extent of State intervention varied greatly from one capitalist society to another, but all accepted the fact that the State had to intervene.

In recent times – with the rise of a monetarist philosophy amongst various capitalist states (Reagan in USA – Thatcher in UK etc) – the emphasis on *limiting* the role of the State re-emerged. This was an attempt to reverse the trend amongst most capitalist societies, for the State to play an *increasing* role in the economy. Even today, it is only a small 'lunatic fringe' amongst the pro-capitalist theorists who would advocate *no role* for the State.

As we can see from the above discussion, a mixed economy capitalist society is not some 'new' thing. It is the situation that exists in most capitalist economies; a private sector side by side with a public (or State) sector, in an economy dominated by the *private* ownership of the means of production. The debate is about the *extent* of the State's involvement in the economy, not about *whether* the State should intervene.

Thus we can see that the debate about nationalisation (in order to increase the State sector) within a mixed economy in a future South Africa is not a debate about socialism *at all*. It is a debate about what *form* of capitalist economy can adequately deal with the task of overcoming . . . 'the effects of centuries of racial domination and inequality . . . ' and achieve a ' . . . a rapid and irreversible redistribution of wealth . . . '

Section III

Is there a Need for a Redistribution of Wealth, Income and Development in South Africa?

Let's start with wealth. By this we mean the whole range of possessions – from personal goods to houses to property to factories/farms/mines to shares etc. It was estimated recently that 5% of South Africa's population owns 88% of the personally owned wealth. The whites own 87% of all the land in South Africa and 95% of the 'means of production'. As far as control of industry goes, six corporations control more than 85% of the shares quoted on the Johannesburg Stock Exchange. This all means that a very small proportion of South Africa's population holds the vast majority of the country's wealth.

What about weekly/montly/yearly income? By 1985, wage disparities were still so great that whites earned (per capita), 13 times as much as blacks earned (per capita) ie. if we divide the total income earned by whites by the number of whites – to get an average (or per capita) income for whites – this amounts to 13 times as much as the average for blacks.

Over half of all African households receive an income below the lowest 'poverty datum line' used by economists.

By 1985, although they constitute the vast majority (84,5%) of the population, Africans only earned about 39 percent of the total personal income earned in South Africa in that year. Economists have a way of comparing income inequalities from one country to another. They measure what is known as the Gini co-efficient for that country and compare it to the Gini co-efficient of other countries. The Gini co-efficient ranges from 0 – in a situation of absolute equality of income throughout the society – to 1 in a situation of absolute inequality. Most Western countries have a Gini co-efficient of between 0,35 and 0,41. South Africa's inequality co-efficient is around 0,7 – the highest Gini co-efficient for any country whose income data were available at that time (1983).

What about the distribution of development? Let's start with the provision of electricity. Two-thirds of all black households do not have electricity in a country that generates 60% of the total electrical energy generated on the entire African continent.

What about population density? In the rural areas, where farming is a vital component of the people's subsistence, the non-reserves rural areas (ie. the 'white' rural areas) have a population density of six persons per square kilometer. In the reserves, the average population density is 57 persons per square kilometer with some areas as high as 298 persons per square kilometer.

In the absence of electricity, households use wood for fuel – to cook, warm themselvels and to provide lighting. Households need two to three 'headloads' of wood (weighing between 30 – 50 kgs) per week. In a comparitive study of various rural areas, Eberhard found that the average distance walked to get the wood was between 5,6 and 9,4 kilometers and the average time it took to fetch a headload was between 2,5 and six hours. The costs of providing *wood* – to black people in urban areas – are much higher than the equivalent costs of *electricity* to white households.

Many of the rural areas do not have access to adequate supplies of clean (hygienic) water for drinking/cooking and washing. Studies have shown a direct correlation between the lack of clean water and disease – which contributes to the high infant mortality rates found in these areas.

Between 30% and 70% of African school-age children are underweight, while 22% to 66% have stunted growth due to malnutrition.

7,4 million African residents live in 466 000 'small living units' with an average density of 16 inhabitants per unit. The official estimate of the 'shortage' of housing units is ± 500 000 units which would reduce the above density to *eight* inhabitants per four-roomed house!

South Africa is clearly characterised by a situation of *vast* inequalities of wealth/income and development.

Section IV

Monopolies in South Africa

What do we mean when we speak of the existence of monopolies in South Africa?

Economists use the term monopoly to mean a situation where there is only *one* producer of certain goods or services. An example of this would be Transnet (otherwise known as the railroads section of the South African Transport Services) or the Post Office. Both of these institutions are monopolies in that they are the only providers of train services and postal services respectively. Economists use a different term – oligopoly – to describe a situation where a *few* very large firms dominate a particular industry.

The trouble with this definition is that it fails to capture the situation when certain conglomerates get so big that they span many different products/services. The power these conglomerates wield is not confined to exerting unfair influence within the area of producing one or other good/service, their power extends across the entire economy.

We use the term monopoly in a looser sense, to describe the emergence of enormous conglomerates that exert very significant power in a number of different sectors of the economy.

In the mid-70s, 5% of the firms operating in the manufacturing sector controlled 63,1% of production – while 10% of the firms controlled 78,7% of production.

In construction 5% of the firms controlled 63,2% of production and 10% of the firms controlled 74,6% of production.

The situation is similar in the wholesale and retail trade sector and in the transport sector.

Most of the companies that made up these 5%/10% consisted of subsidiaries of the major monopoly conglomerates.

One such conglomerate, Anglo-American, controls nearly 50% of all the shares listed on the Johannesburg Stock Exchange. The six top conglomerates, Anglo-American, Rembrandt, SA Mutual, Sanlam, Liberty Life and Anglovaal, control more than 85% of the shares quoted on the Johannesburg Stock Exchange.

In 1984, all companies quoted on the JSE were controlled by only 2554 directors (99,99% of whom are white). On top of this, 20% of all directorships were in the hands of just 65 men.

This means that a very small group of people control the economic destinies of most of our country's people. This small group can exercise a decisive influence over the future of our country's economy. They also control (between them) – the vast majority of the economy's investible surplus funds – and thus they can control the direction that the economy will take in terms of new investments – real or speculative, local or international etc.

No truly democratic country could tolerate such a situation. One of the priorities of a democratic government must surely be to break up this vast concentration of economic power.

On the other hand, this concentration of power also affords the State a unique opportunity to guide the economy if it assumed control of these conglomerates. This need not be done by nationalising them. Other methods could also be used, e.g. requiring all companies controlling more than 5% of the Johannesburg Stock Exchange to appoint their boards of directors in the following way: one-third from the unions, one-third directly appointed by the State and only one-third from shareholders of the company. Obviously this would have to be carefully assessed along with all the problems this could cause.

Section V

Nationalisation – What is it? How can it help?

From the above discussion it is clear that nationalisation would be undertaken in order to increase the *size*, or the *nature* of the State's intervention in the economy. Let us review the purpose of such an intervention.

Broadly it would be in order to enable the State to tackle some of the injustices/inequalities inherited from the apartheid State. This could occur in a number of ways:

(a) In order to extend certain services/infrastructure to sectors of the country/population that would not receive such services/infrastructure if the provision of these remained under the control of the private sector. Examples of this could include nationalising the health services or the provision of electricity (at present State controlled but the Nationalists want to privatise it).

(b) In the case of an industry/ies of a strategic nature in terms of its/their centrality to South Africa's economy, or to the foreign exchange situation or whatever – and as such, too sensitive to be left in private hands. One example could be the role of gold as a crucial foreign exchange earner. The government could argue that such a crucial industry – left in private hands – could well end up taking decisions that may make economic sense to their private owners – but be economically suicidal for the economy as a whole. (Of course, alternatives to nationalisation could be explored – like regulating very closely the exploitation and sale of remaining gold reserves etc.)

(c) In order to derive substantial additional revenue from some industry by nationalising it.

(d) A very important way in which the State could direct the growth of the economy into areas that were beneficial to the entire community, would be to take direct control of large sources of investible funds. This could be done by eg. nationalising the banks – or nationalising the insurance/pensions industry.

(e) In order to tackle the unemployment crisis the State could embark on widespread 'public works' projects that provide employment as well as important infrastructural needs of the community (or even produce consumer goods).

So, in summary, nationalisation could be embarked upon in order to:

(a) directly extend services/infrastructure;

(b) directly control strategic industries;

(c) derive extra revenue from ownership;

(d) take direct control of investible funds;

(e) provide increased employment opportunities.

In each case, a future government would have to weigh up the *benefits* against the *problems* of nationalising. Alternatives that may be able to achieve the same effect will have to be considered. Alternatives that may not be as effective but result in fewer problems, may have to be considered. The fact that all this will be occurring within the framework of a capitalist economy means that fairly severe limitations will exist. Capitalist economies depend on the private owners of capital (money) being willing to invest it in new ventures. In order for them to do so, they have to be confident that their money will not be taken away from them – or that their new venture (business/factory etc) will not be taken from them. If these conditions do not exist then economic growth will be very difficult. Without economic growth, no new jobs will be created and the general standards of living of the people will fall.

Some of the problems that nationalisation will raise for a new government are:

(a) Will we have the skilled personnel to be able to run the present State-owned corporations – let alone newly nationalised ones? In the present climate it is clear that we will have to provide top management *as well as* many of the lower levels of skilled technicians/engineers etc who may not be willing to work under a new government. Our manpower problems will thus become more severe as the State sector increases in size.

(b) How will the new government pay for any industries it decides to nationalise? Of course, the new government could decide *not* to pay for them and just appropriate them. This would, however, greatly increase the problems faced by the government within the mixed economy framework. If it did pay for them, then it would be faced with the prospect of spending a lot of its current income on such debts – thus preventing it from spending this money on the many other pressing needs that it will be faced with. If it decided to force the old owners to accept government bonds in payment (ie. a form of 'forced loan' to the government) then it would have to pay interest on these bonds (loans).

All these issues would have to be weighed up carefully in making the decision on what to nationalise.

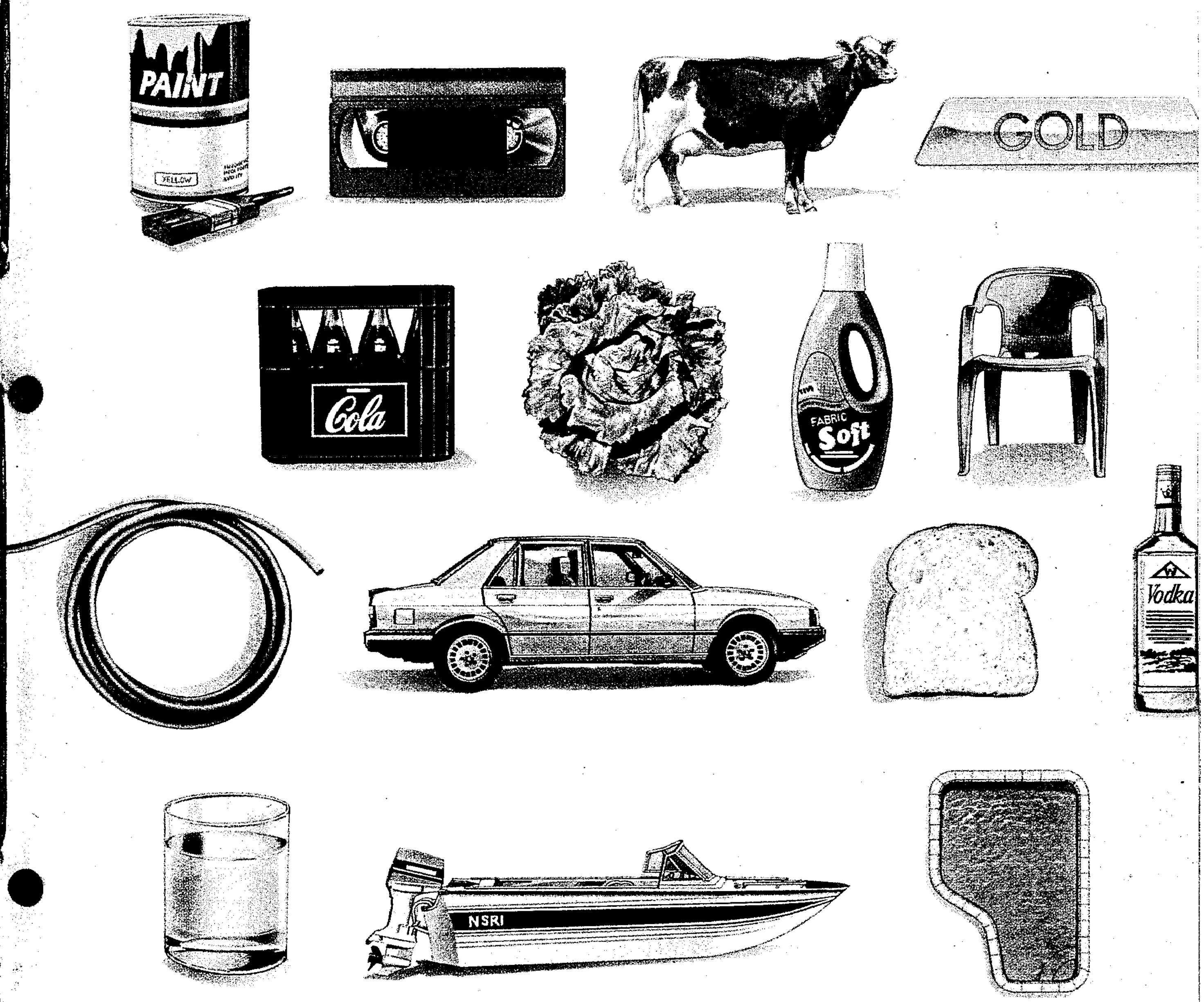
(e) A big problem that governments have with State-owned industries is how to keep them from becoming overly bureaucratic and 'inefficient'. This is not an impossible hurdle, but it does require a lot of innovative supervision and resources to be put into running these industries. If these resources are not available, then the new government will have to seriously consider alternatives.

Conclusion

1. South Africa's history of oppression and economic exploitation has resulted in a deeply divided society. A society in which the 'haves' and 'have nots' are divided largely on grounds of colour. A non-racial democratic South Africa will have to address this situation very urgently and effectively if the *highly unstable situation* that inevitably results from such inequality is to be overcome.

2. Funds will have to be found to tackle the desperate poverty and deprivation that exists in our country. The economy will have to be re-oriented to serve the needs of all South Africa's people and not just those of the white population.

JUST WOULDN'T BE THE SAME



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3. The vast concentration of economic power in the hands of a few conglomerates and especially in a situation where these conglomerates are controlled by a very small sector of the (white) population, cannot be tolerated by a democratic government.
4. The apartheid State with all its duplication and wastages will obviously have to be radically transformed. This includes the need to take a long hard look at a public sector that has essentially become a form of 'sheltered employment' for supporters of the government.
5. The non-racial and democratic State will have to extend into areas and services that were ignored under apartheid. This may well include new ventures that are set up under the auspices of the State. In doing this, we will have to take care to avoid the inefficiencies of the apartheid State apparatuses by ensuring that full cost-accounting of such ventures is adhered to – where this is appropriate.
6. The re-nationalisation of key sectors of the State sector will definitely be very seriously considered. Our movement will not tolerate attempts to "sell the family silver" in desperate and unseemly haste in order to prevent these passing into the hands of a democratic government.
7. The drawing up of a co-ordinated economic plan – that harnesses the energy of all our peoples and that of the private sector – will be an urgent priority for a democratic government. In order to ensure that this broad framework is adhered to, the State will have to intervene in the economy via regulation, and possibly even direct participation in key areas.
8. In assessing the policy instruments needed to achieve its goals, the democratic State will seriously consider the need to nationalise certain sectors of the economy. This will clearly only be undertaken if the State feels – upon consideration of all the benefits and problems – that no other alternative will achieve its objectives.

Servaas van der Berg*

Meeting the aspirations of South Africa's poor†

1. Introduction

South Africa is a highly divided, semi-industrial society, presently undergoing fundamental conflict which has led to secular economic stagnation. It has become obvious that addressing its economic ills would require fundamental political transformation, during which process major economic problems also need to be addressed. Some of these problems relate to important macro-economic policy choices (e.g. international trade policy); others are concerned with the socio-political claims made on the economic system, and whether (or how) these could be accommodated. This is the subject matter of this paper.

This paper will thus consider the problems flowing from rising aspirations versus constrained resources, and in particular focus on meeting the aspirations of the poor in post-apartheid South African society, starting from the constraints and inequalities of the present.

To judge attempts at meeting the aspirations of the poor, one needs to consider available resources, their deployment, and the aspirations of the poor. Resources are constrained by South Africa's relatively underdeveloped economy and by poor economic growth prospects: the deployment of resources under apartheid has bred inequality, waste, and duplication; and aspirations are highly inflated due to the demonstration effect of inappropriate and unattainable (for the whole society) standards of living enjoyed by whites under apartheid.

Although prospects for meeting the aspirations of the poor are necessarily better in a society built on inclusion of the major poverty groups (in contrast to apartheid, built on exclusion), it will be shown that reducing aspirations (not only of whites) is a major task awaiting any post-apartheid government. Legitimation of the post-apartheid system would require great efforts and vast resources, as well as participative policymaking processes to ensure an efficient and appropriate deployment of resources. This demands a social policy system based on material provision for the poor, rather than a continuation of present ad hoc social policies.

The rest of this chapter will consider South African poverty in international perspective (Section 2); prospects for economic growth and the potential role of social policy in this regard (Section 3); prospects for reducing poverty through the economic growth process (Section 4); the fiscal dilemma facing any government wishing to address poverty through non-discriminatory social services (Section 5); and the resultant need for social policy that is both clear and effective in addressing the needs of the poor (Section 6).

2. South African poverty in perspective

The extent and the nature of poverty in South Africa is well-documented. The Second Carnegie Investigation into Poverty and Development in South Africa, for instance, generated a vast amount of material on poverty and inequality, culminating in the recent book by Wilson and Ramphele. Economic inequality in South Africa largely follows the lines of power inequality, with a predominantly racial dimension and a secondary geographical dimension (e.g. urban blacks are better off than peasants in the homelands).

Due to this considerable inequality, the extent of South African poverty is substantial for a country at its level of economic development, though inequality within South Africa makes averages uniquely misleading. Though classified by the World Bank as an upper middle-income country, South Africa performs more like the typical lower middle-income country when social indicators are considered, while its health performance is even worse than that of some poor (low-income) countries such as Sri Lanka and China (Tables 1A and 1B). Amongst countries at a similar development level, only Brazil approaches South Africa's poor health record, whilst Zimbabwe, with many historical similarities to South Africa, performs almost as well in terms of social development levels, despite being much poorer. Much greater levels of needs provision are attainable at comparable or lower levels of economic development, as the case of Sri Lanka strikingly illustrates.

On available international evidence, South Africa utilizes its economic resources poorly in meeting health needs. Regression results indicate that South Africa's actual health performance compares poorly with its expected performance, given resources of income, medical personnel and food supply (Table 2). An average performance (compared to other countries) in transforming available resources into health would, for instance, have resulted in an increase in life expectancy of five years.

Thus a reduction in poverty could stem from economic growth making more resources available (assuming unchanged distribution), or from better utilisation of resources in terms of the needs of the poor. Accordingly, Section 3 will focus on economic growth prospects, the main constraint on future material well-being. Unless economic growth considerably outpaces population growth, poverty will not be drastically reduced through market processes alone, as will be shown in Section 4, thus leaving a large burden on fiscal processes to address the needs of the poor (Section 5).

3. South African limits to growth: The role of social reform

3.1 The economic costs of apartheid

Redistribution and social reform are constrained by limited resources. Are higher long term economic growth rates realistically possible under altered political circumstances? This question cannot be addressed fully here; suffice it to say that many costs (including opportunities foregone) of apartheid relate to previous or present

- restrictions on black economic participation (in the labour market generally) and as entrepreneurs.
- underinvestment in black education and skills.
- market distortions through ideologically motivated market interventions (e.g. Article 3 of the Physical Planning Act that restricted black urban employment to induce industrial decentralisation to the homelands; and transport costs of the poor; the Group Areas Act that created artificial housing shortages; racial segmentation of the transport market that left white commuters without public transport).
- distortions of demand patterns, biasing them in favour of luxury goods. The inward industrialisation policy acknowledges that increasing incomes of the poor may stimulate demand for basic consumer goods produced domestically and labour-intensively.
- maintenance of a siege economy that influenced availability of investment finance (thus magnifying the balance of

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† This paper is a revised draft of a paper delivered at a colloguim in Lausanne, Switzerland, 8-13 July, 1989.

Table 1A – South African development in perspective: resources for social development.

Category or country	Per capita GNP (US $) 1986	Pop. per physician 1981	Pop. per nursing person 1981	Calories per person 1985
Sub-Saharan Africa:	370	25 310	2 800	2 097
Low-income countries (excluding India and China):				
Average	200	17 670	7 130	2 100
Best	420	2 910	630	2 508
	Senegal	Pakistan	Ghana	Burma
Worst	120	88 150	33 390	1 617
	Ethiopia	Ethiopia	Nepal	Mozambique
Lower middle-income countries:				
Average	750	7 880	1 760	2 511
Best	1 570	510	450	3 275
	Syria	Lebanon	Chile	Egypt
Worst	460	18 570	3 450	2 005
	Liberia	Morocco	Yemen A.R.	Ecuador
Upper middle-income countries:				
Average	1 890	1 380	900	2 967
Best	7 410	390	130	3 637
	Singapore	Hungary	Israel	Greece
Worst*	1 810	3 910	2 250	2 423
	Brazil	Malaysia	Malaysia	Panama
Industrial market economies:	12 960	550	180	3 357
Selected countries:				
Sri Lanka	400	7 460	1 260	2 485
Zimbabwe	620	7 100	1 000	2 144
Brazil	1 810	1 300	1 140	2 657
Malaysia	1 830	3 910	1 390	2 601
SOUTH AFRICA	1 850	1 811	413	2 926
Uruguay	1 900	500	190	2 791

* Algeria, Gabon, Iran, Iraq, and Oman are oil-producing countries that are not structurally similar to other countries in this category. They generally have social development levels far lower than those of other upper middle-income countries. Accordingly, they were regarded as unrepresentative when identifying the worst performers, and were ignored in this row (although their social development levels do influence the averages in this category as given).

Definitions:
Per capita income is partly adjusted for exchange rate fluctuations by using figures over three years.

Calories per person measures consumption of food calories, irrespective of its distribution or composition.

Sources: World Development Report 1988
South African Statistics 1988.

payments constraint) and access to international markets (encouraging the costly drive for autarky).

- industrial and social conflict and their effect on investor confidence.

The economic costs of apartheid have been great, but the effect on economic growth of economic and ideological reforms will be limited, unless the last factor is addressed: conflict and confidence. Lifting restrictions on black economic participation, investing more in black education and training, rectifying market distortions, changing the composition of demand, and lifting the siege on the economy are not enough to ensure acceptable economic growth, *unless conflict is reduced and investor confidence renewed.*

The effect of social conflict on domestic and international investor confidence has been the most serious constraint on economic growth, and will also be an important potential constraint under a new regime. Accordingly, we shall now investigate the role of social reform in reducing conflict and providing an atmosphere conducive to investment.

3.2 The role of social reform in promoting social consensus and business confidence

The present conflict in South Africa can be regarded as a legitimacy crisis if legitimacy is defined as "... the capacity of the system to engender and maintain the belief that the existing political institutions are the most appropriate ones for the society", for few groups regard present institutions as appropriate.

Pre-industrial societies were able to grow even with great inequality, but economic growth in an industrial society requires the initiative, skills, consumer participation and therefore consent of the population. The crisis of legitimacy and the conflict arising from it appear to be universal constitutive elements in the transition to a modern industrial society, as I have argued elsewhere. Such conflict needs to be resolved before the transition towards industrial maturity could be completed. That requires reform of political, social and economic institutions in semi-industrial countries. In Western Europe and America, institutionalising industrial conflict and social reform involv-

Table 1B – South African development in perspecitve: Measures of social development.

Category or country	Life expectancy 1986	Infant mortality 1986	Crude mortality 1986	Fertility rate 1986	Crude birthrate 1986
Sub-Saharan Africa:	50	113	16	6,7	48
Low-income countries (excluding India and China):					
Average	52	106	15	6,0	43
Best	70 Sri Lanka	29 Sri Lanka	6 Sri Lanka	2,9 Sri Lanka	24 Sri Lanka
Worst	41 Sierra Leone	155 Ethiopia	24 Sierra Leone	8 Rwanda	53 Malawi
Lower middle-income countries:					
Average	59	77	10	4,7	35
Best	74 Costa Rica	18 Costa Rica	4 Costa Rica	2,2 Mauritius	19 Mauritius
Worst	46 Yemen A.R.	152 Yemen A.R.	20 Yemen A.R.	7,1 Ivory Coast	50 Ivory Coast
Upper middle-income countries:					
Average	67	50	8	3,5	27
Best	76 Hong Kong Greece	8 Hong Kong	5 Singapore Venezuela Panama	1,7 Singapore Portugal	11 Greece
Worst*	61 S. Africa	74 S. Africa	14 Hungary	4,5 S. Africa	34 S. Africa
Industrial market economies:	76	9	9	1,7	13
Selected countries:					
Sri Lanka	70	29	6	2,2	24
Zimbabwe	58	74	11	6,0	45
Brazil	65	65	8	3,5	29
Malaysia	69	27	6	3,5	29
SOUTH AFRICA	61	74	10	4,5	34
Uruguay	71	28	10	2,6	19

* See note to Table 1A

Definitions:

Life expectancy at birth is the average number of years a person can expect to live if age-specific mortality remains constant at present levels.
Infant mortality is the number of deaths in the first year of life per thousand live births.
The *crude mortality rate* is the number of deaths per thousand population.
The *total fertility rate* is the number of children that would be born in the lifetime of a woman to whom present age-specific fertility rates apply.
The *crude birthrate* is the number of births per thousand population.

Sources: World Development Report 1988
South African Statistics 1988.

Table 2 – South Africa's actual versus expected health performance based on cross-sectional regressions

	Actual	Expected
Life expectancy at birth (years)	61	66
Infant mortality per 1 000 births	74	47
Crude mortality per 1 000 population	10	10

Source and note:
Regressions run on data from World Development Report 1988. Independent variables used were the natural logarithm of GNP per capita and population per physician. In excess of three-quarters of variation in life expectancy and infant mortality was explained by the regressions, an extremely good fit for cross-sectional data.

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ing social security and education were essential in building the social consensus required for a modern industrial society to function. Far-reaching social reform can strengthen or induce a return of legitimacy, if it causes economic and political processes to be perceived to be just. It is sometimes even argued that participative, plural democracy is a requirement for the return of legitimacy and stability in semi-industrial societies.

In a post-apartheid South Africa, legitimation may enhance stability and thereby growth prospects. Material inequality stemming from market processes will not be accepted by the presently disadvantaged and social strife is bound to continue, unless social policy is perceived to be just and to reduce economic disparities. Such a social policy process must be transparent, especially where it pertains to financial transfers between classes and groups in society. Like justice, social justice must be seen to be done; in South Africa social reform introduced by stealth to reduce white resistance had little impact on increasing the legitimacy of the economic system in the eyes of blacks.

In a mixed market economy, rapid economic growth also requires investor confidence and foreign investment. In the same way as in the present crisis of legitimacy, growth in a post-apartheid society may similarly be curtailed by investor uncertainty. The gain in legitimacy when apartheid is abolished needs to be combined with appropriate economic policy and a climate conducive to business so as to promote investor confidence.

The experience of Zimbabwe shows that a change in government and the lifting of sanctions should be followed by political stability and relatively limited government interference in economic processes to provide a favourable environment for direct foreign investment. Given its importance for economic growth, this condition may in the long term be the major factor affecting poverty.

3.3 Conclusions regarding prospects for growth

Removing the constraints on economic growth under apartheid may not necessarily induce accelerated economic growth, especially in the transition period. Two major questions are the following:

- Can social reform by a post-apartheid government legitimize the economic and political system and address the aspirations of the poor?
- Can such political and social reform take place without excessive market intervention that undermines investor confidence, a crucial precondition for economic growth in a mixed economy?

Economic and social policy thus needs to walk a tightrope if rapid and sustained economic growth is to be achieved. There needs to be visible social justice to legitimate the post-apartheid system in the eyes of particularly the well mobilized urban workforce (not necessarily the poorest group in society), but government intervention in market processes should be curtailed to encourage the investment and entrepreneurship that drive the growth process. If a balance between these two requirements can be achieved, then conditions may be favourable for rapid, sustained and equitable growth allowing further social reform and thereby assuring stability. However, prospects of this occurring are not good: government reluctance to initiate major reform has increased frustrated expectations, whilst an expressed preference for non-market solutions on the part of opposition forces promotes investor uncertainty. Thus the economic growth potential of the country would most likely not be reached in the decade following the abolition of political apartheid.

Taking poor growth prospects as given (while hoping that this may turn out not to be true), we can accordingly investigate the potential for meeting the aspirations of the poor assuming economic growth to remain constrained to not much more than population growth.

4. Reducing poverty through economic processes: Income and its distribution

4.1 Structural change and distribution

I have argued that South Africa experienced three major structural changes in the 1970s which crucially influenced economic prospects and distribution. These changes were:

- a deceleration in economic growth combined with decreased job creation in the growth process
- a shift in the balance of power
- a political paradigm crisis.

Whilst the paradigm crisis is important from a fiscal perspective, income distribution through market processes has been influenced most by lower growth and its effect on employment, and by wages rises due to the rise in the balance of economic power of black unions. Accordingly, we shall now consider these two structural factors.

4.2 Growth and employment

The effect of the deceleration in economic growth is shown in Fig. 1.

Since 1975, there has been an almost continuous decline in real GDP per capita, reflecting the inability of economic growth to keep pace with population growth. Moreover, depressed economic growth and capital-intensification reduced job creation; only 580 000 jobs were created in the formal economy in the decade 1976-85, whilst the labour force expanded by 2,9 million. This led to a burgeoning informal sector, increased population pressure on already overburdened homeland (subsistence) agriculture, and a rise in unemployment. It is widely acknowledged that growth exceeding 5 per cent per annum is required for employment to keep pace with labour force growth, which would only be possible in favourable political circumstances and with a high degree of social consensus and investor confidence.

Figure 1 – real per capita GDP
thousand 1980 – rand per capita

4.3 Union power and wages

The shifting balance of power has been especially marked in the labour field. The relative constancy in average real black wages in mining from early this century until the early 1970s contrasts sharply with the dramatic increase since 1973 (Figure 2(a)).

Rising mine wages following the gold price rise of 1973 were, through trade union action, transmitted throughout the economy and sustained since. Figure 2(b) in conjunction with Figure 2(a) illuminates the changing balance of economic power: since the 1922 Rand Rebellion, wage rises of white mineworkers outpaced that of blacks, but after 1973, real white mining wages declined whilst black wages grew at an unprecedented pace. A similar, though less-dramatic, picture emerges with regard to wage trends in other sectors; since 1973 black wages started catching up with those of whites. The shift in power towards black trade unions, rapid upward mobility, and more skill-intensive production techniques should all ensure that black wages continue to rise.

4.4 Income distribution

Although overall and intragroup inequality is relatively high in South Africa, intergroup inequality is at the centre of the distribution debate. In 1980, per capita income of whites was R5 060 per year, as against R428 for blacks.

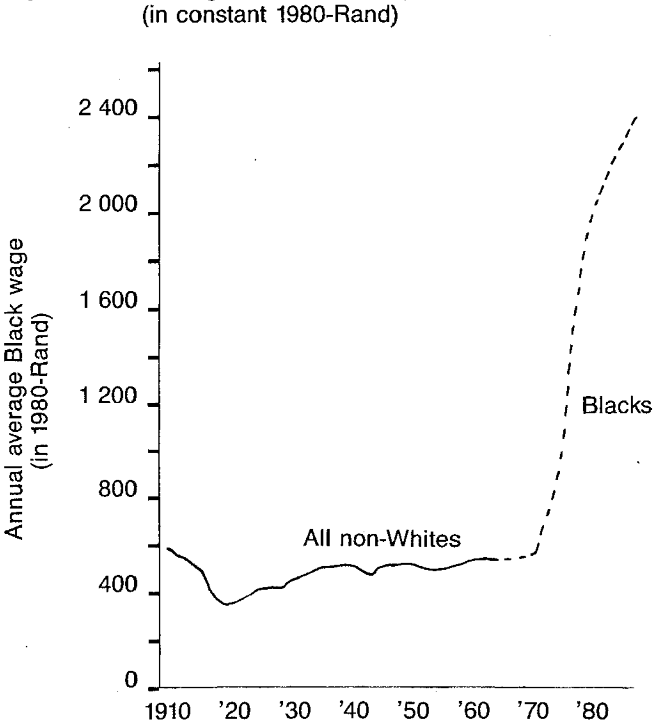
Income disribution is in large part determined by the distribution and levels of wages and of employment. If we concentrate on the poorest and numerically most important group, we find that:

- *Since 1917 until approximately 1960,* moderate employment growth in the formal economy and moderate wage rises induced moderate black income growth;
- *During the 'golden 1960s',* black wage increases remained moderate, but rapid expansion of black employment (especially of women) led to acceleration of black income growth;
- *In the first half of the 1970s,* the very rapid rise in average black wage levels throughout the economy more than compensated for a somewhat decreased absorption of blacks into the formal economy;
- *Since 1975,* the continued sharp wage rises were overshadowed by increased employment scarcity, especially for blacks, causing stagnant or even declining average incomes for blacks.

As wages and employment explain the major movements in black personal incomes, the relative strenth of these two opposing forces would determine the future influence of market forces on black living standards. Under low to moderate economic growth, future prospects for black wages (likely to continue rising) and employment (likely to become even scarcer) point to a continuation of present income distribution trends, i.e. stagnation of black per capita incomes. I have estimated that an economic growth rate exceeding 3 per cent per annum for the peirod 1980-2000 would be required just to prevent black average incomes from falling relatively further behind those of whites, as very high economic growth rates are required to overcome unemployment.

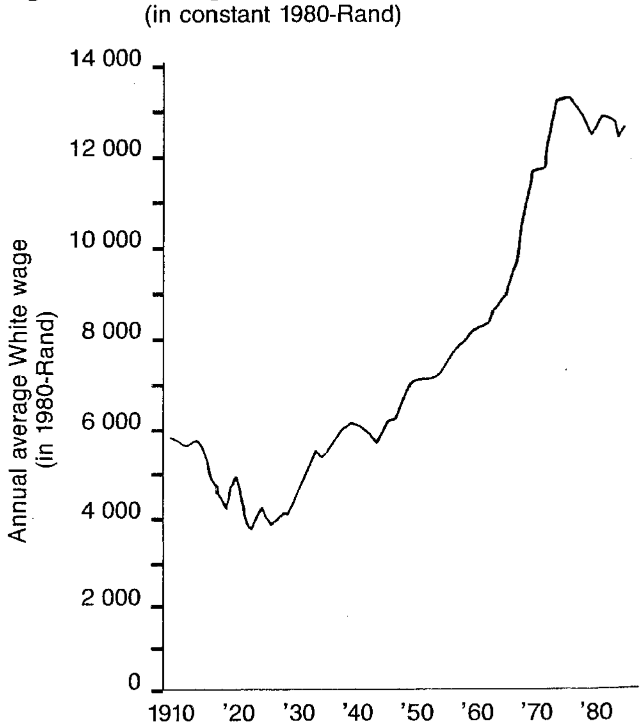
Not all segments of the black community are affected equally. Black poverty is increasingly becoming a question of employment rather than of wages. While wage rises would improve the material situation of employed blacks substantially, the numerical importance of those without jobs would probably rise without high economic growth rates, and poverty may increase. Redistribution, as far as it occurs, is taking place towards the middle groups.

Figure 2A – Average Real Black Wage in Mining, 1910-85 (in constant 1980-Rand)



SOURCE: Calculated from official figures from Central Statistical Services

Figure 2B – Average Real White Wage in Mining, 1910-85 (in constant 1980-Rand)



SOURCE: Calculated from official figures from Central Statistical Services

5. The challenge for the State: Meeting aspirations through fiscal processes

5.1 The fiscal dilemma

As market forces alone thus would not satisfy rising aspirations (barring exceptional economic growth), pressure to reduce economic disparities and satisfy aspirations through fiscal processes would increase, making distribution through the political process (i.e. the budget) rather than the market a central issue.

Two alternative fiscal paradigms co-exist in South Africa:

- The apartheid paradigm regards the group as a political and economic entity. Whites contribute more to taxes than the benefits they receive from government expenditure. This is interpreted from the perspective of this paradigm as that whites contribute financially towards the material well-being of other groups; it is even sometimes referred to as 'development aid'.
- The alternative view is that South Africa is a single economy and nation and that source of taxes is therefore not an appropriate norm for government spending, which should be non-discriminatory, i.e. not determined by group membership. As whites receive far more generous benefits from State expenditure than their numbers alone (not even to speak of relative need) warrant, this paradigm is clearly not the ruling one.

  Since the middle of the 1970s there have been signs of a paradigm crisis and even a switch towards acceptance of the integrated nature of the South African economy and society. Ideological apartheid has been moderated, reflecting recognition of its insustainability. That does not imply the complete demise of the apartheid paradigm in government and bureaucratic circles, or that there is a new political paradigm, but self-interest and pragmatism have replaced ideological purity as motives in government policy, thereby reducing the ideological coherence of policy initiatives. This is exemplified in legislative and administrative changes (e.g. in the labour field), in urbanisation policy, and in the acceptance of the long term goal of parity with regard to State expenditure patterns. This last change is partly reflected in public expenditure patterns, which concern us here:
- Average black social pension levels increased from about 12 per cent of those of whites in the mid-1970s, to about 35 per cent in 1985, mainly but not solely through a decreased real value of average white social pensions.
- Although disparities are still enormous, real per capita current expenditure per black primary and secondary school pupil increased substantially since the early 1970s, despite rapid growth in pupils number.

Official policy now is that public expenditure disparities are an unhappy legacy that needs to be eliminated, although there is still reluctance to accept the financial consequence that white benefits would have to be drastically reduced. In 1975, parity at average levels of social expenditure would have implied a more than 70 per cent reduction in white benefits from government expenditure, to even below the level of benefits received by coloureds.

Next, we shall investigate the scope for an expansion of social spending so as to introduce parity.

5.2 The fiscal dilemma in cross-national perspective

South Africa's social expenditure dilemma is in some respects similar to that of most developing countries: rising expectations that cannot be satisfied from existing budgetary resources. However, in South Africa apartheid allowed white standards to be set at a level far exceeding the ability of the country to afford extending to other groups. On evidence from countries at comparable levels of economic development (Table 3), South African social expenditure levels are not greatly out of step with international patterns, health and educational expenditure levels appearing respectably high by international standards, and defence expenditure only moderately high. There is limited scope for further increases in social spending at the expense of other public spending programmes, whilst the tax ratio is nearing its threshold level. The real challenge is thus to restructure social expenditure itself.

5.3 Quantifying the fiscal costs of parity

Attempts at quantification of the effect on social expenditure if disparities were eliminated have recently abounded: the De Lange Investigation into Education, the KwaNatal Indaba, and other research all addressed this issue from different perspectives. We shall consider some implications in four important, and costly, fields, viz. education, social pensions, health, and housing on the basis of some simple assumptions.

Table 3 – Proportion of National Product devoted to various purposes, 1986.

	Proportion of National Product devoted to:		
	Defence	Education	Health
Lower middle-income developing countries			
Average	3,74%	3,61%	1,00%
Highest	12,28%	8,74%	5,65%
	Jordan	Botswana	Costa Rica
Upper middle-income developing countries			
Average	2,92%	2,89%	1,44%
Highest	26,48%	6,38%	5,14%
	Oman	Oman	Panama
South Africa	4,48%	5,28%	3,14%

Sources: World Development Report 1988
South African Statistics 1988
Race Relations Survey 1986

5.3.1 *Education*

Presently, segregated educational institutions allow an analysis of differential financial allotments for different groups. In 1986/7, per pupil expenditure amounted to R2 746 for whites, R892 for coloureds, R1 386 for Asians and R367 for blacks, giving a weighted average of R773 per pupil. Equal expenditure at white levels would have required a three and a half fold increase (R2 746/R773) in aggregate educational expenditure, from R6,8 billion to R24,2 billion (i.e. from 5,3 to 18,9 per cent of GDP).

But parity of per pupil expenditure is not the only educational aspiration of the poor. Presently, the black school population is about 62 per cent of the population aged 5-19, versus 78, 75 and 83 per cent for whites, coloureds and Indians respectively. Free and compulsory education and greater emphasis on education would increase black pupil numbers; if 75 per cent of the relevant age group of all races attend school under such conditions (compared to less than 65 per cent presently), the increase in student numbers plus parity at white levels would have required a more than fourfold increase in educational spending. On 1986 figures, educational spending would have had to increase from R6,8 billion to R27,7 billion, or from 5,3 per cent to more than 21 per cent of 1986 GDP.

• *5.3.2 Social pensions*

Since the late 1970s, white social pensions have been decreasing in real purchasing power, with the exception of the boom years of 1980/81. The government has used the veil of inflation and money illusion to reduce real pensions per white beneficiary in order to reduce the racial pension gap, though the gap remains considerable: in 1987/8, annual benefits per beneficiary were over R2 400 for whites and about R900 for blacks (Table 4).

Racially differentiated eligibility criteria (means tests) have biased social pensions (especially pensions other than for old-age) heavily against blacks, who would require the greatest assistance if non-discriminatory criteria were used. As a result, in 1986 only 1,31 per cent of non-homeland blacks received such pensions, versus 1,4 per cent, 4,5 and 3,8 per cent of whites, coloureds, and Indians respectively. If we assume that non-discriminatory eligibility criteria are applied, black beneficiaries of other (non-old-age) pensions would probably increase to at least 4 per cent, increasing the total number of pensioners by 673 000. Given parity, the costs of social pensions would then have amounted to R5 219,5m, or 4,1 per cent of GDP.

• *5.3.3 Health*

Despite government attempts to administer health as an "own affair", health spending is difficult to differentiate by race. The differential in per capita health expenditure between the homelands and the rest of South Africa is already large. The conservative estimate used in Table 5 (Assumption A) assumes that per capita health services in non-homeland South Africa would be maintained and also extended to the homelands. This already requires vast resources: overall health expenditure would have to increase by more than R2 billion (50 per cent), from 3,1 per cent to 4,7 per cent of GDP.

Much greater expenditure would be required to extend present white standards of public health services to all. If we assume per capita expenditure on whites to have been twice the national average in 1986, and if such spending levels were to be extended to other groups (Assumption B of Table 5), health spending would have to double to just over R8 billion, i.e. 6,3 per cent of GDP. Even this may be a low estimate, if white benefits from present health spending actually exceeds the national average by more than a factor of two.

• *5.3.4 Housing*

The public cost of housing the poor depends on the level of government involvement in the housing process as well as on the standards of housing and service provision accepted. If the government is responsible for providing formal housing for the poor and the housing backlog is to be eliminated by the end of the century, estimated public funding required is in the order of R3,5 billion per annum (in 1986-Rand) or 2,7 per cent of GDP, versus actual annual expenditure of about 0,8 per cent of GDP in recent years. While there is a case for more public spending on housing, particularly if urbanization is regarded as a process with potential positive effects on modernisation, health and economic growth, a case can also be made out that government should stay out of the provision of housing structures and provide only rudimentary serviced stands. This would decrease required public spending to R1,7 billion to 1,3 per cent of GDP.

• *5.3.5 Summary: fiscal resources required for heading parity at white benefit levels*

From the above, it transpires that the cost of introducing parity at white benefit levels and addressing the housing needs of the poor are tremendous (Table 6). Social spending in only these four fields would have to increase from 10,7 per cent of GDP to between 27 and 35 per cent of GDP. This is clearly not attainable.

Table 4 – Social Pensions: Beneficiaries and Value of Benefits, 1986

	Number of beneficiaries (thousands)	Total benefits	Cost per beneficiary	Expenditure required for parity
Whites	209	R509,8m	R2 439	R509,8m
Coloureds	246	R370,1m	R1 504	R600,0m
Indians	60	R96,4m	R1 607	R146,3m
Blacks:				
Homelands	575	R517,2m	R899	R1 402,4m
Elsewhere	427	R384,0m	R899	R1 041,5m
Total	1 002	R901,2m	R899	R2 443,9m
Total	1 517	R1 877,5m	R1 238	R3 700,0m

Table 5 – Health Expenditure and the Cost of Parity under two assumptions, 1986 (in current Rand)

	Homelands	Rest of South Africa	Total South Africa
Total expenditure	R548,5m	R3 471,5m	R4 020,0m
Population ('000)			
White	—	4,9m	4,8m
Other	14,3m	14,5m	28,8m
Total	14,3m	19,4m	33,7m
Per capita expenditure (1986-Rand)			
White	—	R238	(assumed) R238
Other	R38	R159	R99
Total	R38	R179	R119
Assumption A: non-homeland average expenditure levels (R179 per capita) extended to homelands:			
Projected expenditure	R2 560m	R3 472m	R6 032m
Assumption B: White expenditure levels (assumed twice the national average, i.e. R238 per capita) extended to all:			
Projected expenditure	R3 403m	R4 617m	R8 020m

5.4 Fiscal consequences

Once political apartheid is abolished, major changes are required to abolish fiscal apartheid. Given scarce resources, four fiscal consequences follow:

(i) Devoting a greater proportion of public expenditure to social spending. As was shown, the scope for this is not as great as is often thought.

(ii) The need to reduce spending benefiting whites.

(iii) The need to reduce expectations (of whites and of other groups) to levels commensurate with South Africa's resources as a developing country rather than with present white benefits.

(iv) Reconsidering methods of providing services to ensure that the most cost-effective delivery methods are used.

There is obviously scope for savings to be made by restructuring the social service system, thereby reducing duplication of structures and administrations, particularly in education and health, where physical facilities have often been duplicated. Such savings may reduce the fiscal dilemma somewhat, but probably not substantially, given the high real costs of service delivery: social pensions, teacher salaries, medical personnel, medical equipment, etc.

6. The thrust of an appropriate social policy

Social policy in South Africa is presently very fragmented, and issues such as the financial implications of horizontal fiscal justice (parity), the cost implications of alternative delivery systems, and the quantifications of social security needs arising from growing job scarcity in post-apartheid South Africa have received little attention. But most important, an appropriate social policy, within the constraints of overall limits on the availability of finance for social spending, is one entailing appropriate allocation of resources within the overall social budget, and that utilizes these resources effectively. The ineffectiveness of South Africa's present social policy contrasts greatly with that of Sri Lanka, a country whose public health expenditure per person is only one-twelfth of South Africa's, yet that maintains far better health standards. Ineffectiveness is a consequence of both internal inefficiency in social services, and inappropriate or poorly targeted services, given the health needs of the population.

What can be expected of an appropriate social policy for South Africa? Some principles may include the following:

- It should promote equity, both between groups or classes, and across regions.
- It should raise the quality of human capital.
- It should be targeted to ensure that services and subsidies benefit the poor.
- It should be transparent, i.e. people should be able to judge its effectiveness in promoting social justice, so that it can become an instrument of social consensus.
- It should be geared towards the aspirations of the population at large, which requires participative and decentralised decision-making.
- It should utilize scarce resources effectively, which requires, besides decentralisation, the use of prices and user charges to discourage overconsumption of social services by the non-poor and a resultant drain on State finance.

In the light of previous neglect, present aspirations and its potential for promoting social justice, education would have to be a main element in future South African social policy. Yet, as Table 6 showed, education is very expensive, and more appropriate delivery methods would have to be considered in pursuing equity.

Whilst redressing present inequalities in the main areas of social expenditure (education and health) would already seriously strain the State's financial resources, it still would not address the immediate material needs of the poorest flowing from low incomes and lack of employment. This brings us to the issue of social insurance.

During Europe's industrial transition, social insurance was used to address the risks associated with loss of income through old-age, illness, industrial accidents, and unemployment. The social security system which this spawned played an important part in moderating the class struggle. However, in today's semi-industrial countries, large proportions of the rapidly growing labour force cannot obtain formal employment, thus the poverty question cannot be fully addressed by social insurance. Clearly, alternative social security systems are required to involve the poor. Public works programmes, nutrition policy, etc., concentrated on the non-employed, often in rural areas.

A serious danger exists that present promises about future social policy are unrealistic, given the resources available; that, as a result, expectations are completely inflated; and that the compromises which would have to be reached in a post-apartheid South Africa would be detrimental to the very poor, i.e. the unemployed and the peasants, and would be biased towards the politically more powerful urban workforce. This is the natural response to a situation of inflated expectations: governments of all persuasions bow to the demands of the most powerful pressure groups, with the result that policy very often has an urban bias whilst the poorest are excluded from its benefits.

Table 6 – The Costs of Parity and Meeting Aspirations of the Poor (in 1986-Rand)

	Present expenditure	Conservative estimate	Liberal estimate
EDUCATION	R6 752m	R23 986m	R27 676m
	5,3% of GDP	18,8% of GDP	21,6% of GDP
SOCIAL PENSIONS	R1 878m	R3 700m	R5 220m
	1,5% of GDP	2,9% of GDP	4,1% of GDP
HEALTH	R4 020m	R6 031m	R8 021m
	3,1% of GDP	4,7% of GDP	6,3% of GDP
HOUSING	R1 023m	R1 711m	R3 508m
	0,8% of GDP	1,3% of GDP	2,7% of GDP
TOTAL	R13 673m	R35 428m	R44 425m
	10,7% of GDP	27,7% of GDP	34,7% of GDP

7. Conclusions

Barring high growth rates, which appear to be unlikely given the constellation of forces at work in South Africa, poverty alleviation within the constraints presented by low economic growth rates appears problematical. Our conclusions for the mid-term future were

- that poverty and inequality would remain essentially unaltered by market processes, as employment scarcity is the major source of poverty;
- that pressures will grow for political intervention to satisfy material wants;
- that, as fiscal constraints are far too strict for horizontal fiscal justice across group boundaries (parity) in public expenditure at present white benefit levels, alternative delivery methods are required for social services, particularly education, and material expectations of all groups would have to adjust downwards to levels commensurate with South Africa's ability to afford it;
- that that would place increased pressure on social policy as a vehicle for promoting social justice, a requirement for legitimation of the post-apartheid economic and political system to create the stability conditions for future growth.

Whilst few benefits of the rapid growth of the 1960s trickled down to the poor, the experience since 1973 shows that the forces determining trickle down have altered, increasing the likelihood that future growth, through higher wage levels, would benefit some poorer segments of society. However, without rapid growth, poverty and material disparities would remain and even grow.

In a stagnant economy, economic and political conflict becomes a zero-sum game. Stagnation of per capita income can only be overcome once investor confidence has returned, which requires reduced political conflict and improved international relations. Political accommodation is thus a prerequisite, though not sufficient, for growth. The political transition must lay the foundation for economic growth through social reform to address aspirations and legitimate the economic and political system. However, inflated demands following political change will endanger legitimation, and increase the likelihood that a future regime would intervene in market processes to the detriment of business confidence. A major challenge facing a post-apartheid society lies in reducing demands to realistic levels by social reform and institution building based on inclusiveness. Unless this occurs, social policy may not succeed in legitimizing the system in the eyes of urban workers, whilst the very poor, especially in rural areas, may be excluded from most of its benefits.

Merton Dagut*

Reparations: The demands of justice in the reshaping of the economy†

Economic theory second year lectures at Cambridge University were offered in the early 1960s by the renowned socialist Professor Nicholas Kaldor. The first lecture began with a summary of the neo-classical "view" of the world. In those days the word "paradigm" had not yet come into common use, and the phrases "mind set" and "thought mode" had not been coined. We used plain language and found it quite easy to convey to each other what we meant.

I must ask those graduates and my professional colleagues who are economists to be patient while I explain to the 'non-economists' present that, broadly speaking, the 'neo-classical view' is the intersection of demand and supply curves explanation of prices, and resource and income distribution. In a neo-classical world the cake is seen to be best baked and sliced via consumer sovereignty and competitive effectiveness. It is, in short, the central perception behind good arguments for private enterprise and ownership, privatisation, deregulation and the free interplay of market forces. It is this neo-classical view that lies behind the second and third elements of the Preamble to the Charter of Economic, Social and Political Rights published last Thursday by the South African Chamber of Business:

> "**Believing** that the optimal wealth creation for the benefit of all is best achieved through a market economy.
>
> **Accepting** our responsibility to strive for economic growth, wealth creation and the generation of work opportunities in a market economy environment that encourages entrepreneurial endeavour."

The executive director of the Free Market Foundation most recently propounded the view, in its most rigorous form, on Wednesday last:

> "The closer any country gets to a pure free market, the better its economic performance will be – and the more justly wealth will be distributed."

(Leon Louw *Business Day* 16 May p 14)

Professor Kaldor crisply and forcefully invited undergraduates to re-examine what had been held as self evident, by beginning his theory course with the statement: "The first law of economics is already in the bible – unto everyone that hath shall be given". I would like to link that text and its context with a dictum from possibly the best known American management guru, Peter Drucker: "The greatest danger in times of turbulence" (students at Business Schools are told) "is not the turbulence; it is to act with yesterday's logic". Success in business lies with the winners, the people who are ahead. One has to be up to date, at the cutting edge, if one wishes to be one of the people who "make it happen". In a bank which is "serious about money" we tell our managers of three types of people – those who make it happen, those who watch it happen and those who ask "what happened". Your goal, I am sure is to be in the first category, members of which continually question the conventional wisdom. You have proved your right to be members of the club by earning the degrees which are soon to be conferred; and you will show yourselves worthy of membership by using the thinking required to do so.

One is struck when working through case studies of reactions to the oil shocks by how much Royal Dutch/Shell proved better than its rival multinationals at weathering the turbulence in the world economy of the seventies and eighties. A reason, almost certainly, was the early adoption by Shell of the methodology of "scenario planning" introduced to it by Edward Newland and Pierre Wack, and later so hugely popularised in South Africa by Clem Sunter along whose "high road" we now seem set to make political progress. The two seminal articles on scenario planning, 'Uncharted waters ahead' and 'Shooting the Rapids', were republished for internal circulation by Shell under the thought provoking subtitle: *The gentle art of re-perceiving.*

A graduation is a good time to consider re-perceiving. It is an exciting event, a time to plan what to do next. You, our graduands this afternoon, are to be admired for your achievements and to be envied for your opportunities. The movement to reform in South Africa is now unstopable and you, members of the graduate class of 1990, have the privilege of being part of the solution to the problems created and perpetuated in South Africa by your predecessors – to be personal, by my class, and those of the classes before me. We led us into trouble, you are offered the opportunity to lead us out of it.

There is, I suggest, no C.S.F., no other factor more critical to the success of operation of the South African economy in the near future, than that its business leaders "re-perceive" and, having re-perceived, that they act no longer in terms of the paradigm of yesterday. Borrowing words from Pierre Wack, it is necessary for us to "change the decision makers' assumptions about how the world works and compel them to reorganise their mental model of reality", ie, to change their point of view.

Progress is being achieved on a political level as almost all interest groups have come to accept that there is no realistic alternative to a negotiation. But on the economic level, except that all interest groups have found a way of suggesting that they are not unreasonable or completely out of touch with reality, of saying that change can "be phased" and that economic systems can be "mixed", that people must be housed, educated and given health care, that jobs must be created and wages must be fair, the differences between the protagonists have widened rather than narrowed, and stances regarding *how* a better state of affairs is to be brought about, are becoming more rigid rather than more understanding.

The reason, I believe, is that old perceptions and some horrible rhetoric are causing us to talk about (or shout past each other about) almost everything except the essential economic issue. Members of the business community can be forgiven for feeling that we cannot frame a reply when we read of Walter Sisulu's demand that "the unquenchable expectations of the people . . . be satisfied now", for we know that there is no way in which this can be done. Our confidence diminishes and so the "real growth" which can be the only source of income to distribute, slackens and the likelihood of being able to satisfy anybody about anything recedes. An emotion of loss, almost of being cheated or dealt an unfair hand, can be sensed. The President of the South African Foundation, while trying to urge constructive attitudes, expressed the silent thought of many business people: "all of us can very vividly imagine a scenario in which the application of outdated centrally planned economic policies results in South Africa emulating the poor perfor-

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†Paper given at University of the Witwatersrand Graduation, 23 May 1990.


N.° of Shares

mances of some of its neighbours to the north". (W. Clewlow, Business Day 22 March.)

Theoretical studies and practical experience have shown us that markets are the best transmitters of economically relevant information and the freer the market usually the more effectively they do so. Socialist policies interfere with markets and usually impair the ability of economies to grow, or, in worst cases, to function at all. Thus Nelson Mandela's public reaffirmation that the ANC still adhered to those clauses of the Freedom Charter expressing its socialist stance regarding the role of the State in the economy and its duty to influence production decisions and distribution mechanisms, even though it should have been expected, was received with shock in late February. Prices on the Johannesburg Stock Exchange fell initially by 9,8 per cent as it was appreciated that the "Mandela factor" carried potential negatives along with its many positives.

The issue is complex, but it can be simplified without distortion. People at one end of the spectrum hold that only "redistribution" will resolve the crisis into which the apartheid South African economy has fallen; that "redistribution" (by means of socialist policies like nationalisation etc) to bring a change in the structure of economic relationships, is a *sine qua non* for political stability or economic growth. At the other end are those who see the present economy, and the present relationships in the structure, as fully capable of producing more and sustained growth; and that unless there is "growth", which only a market oriented system can produce, it will be poverty rather than wealth which will be redistributed.

Corporate and business South African "haves" hear the cry for a better deal and, wishing they had done more earlier, and following the example of government, respond by social responsibility *gifts* and create *trusts* to achieve a more equitable balance of spending. They 'earmark' a portion of what they have no doubt is *their* income (or wealth) to invest in ways of improving aggregate welfare or alleviating the effects of the skewness of prevailing opportunities. The "have nots", whose views are based usually on first hand experience of poverty are seeing themselves as being the "have not *yets* who will have" just as soon as political empowerment brings them economic empowerment; they appreciate also that that is very scary news for the "haves", and show some pleasure at the thought. Thus, as the tone of the political discussion improves, the quality of the economic discussion deteriorates. The interchange of views has become rather sterile. The reason, I think, is that both the free enterprise led growth school, and the lets get on with the redistribution school are basing their positions on incorrect (or out of date) perceptions of the nature of the problem. Both, therefore, see each other as "way off beam" and on a completely unacceptable path.

Only a "re-perception" can take us out of this blind alley. "Unto everyone that hath shall be given," the core of the neo-classical view, is but the first clause of the chapter 25, verse 29 of the Gospel according to St Matthew. The verse in full reads: "Unto everyone that hath shall be given, and he shall have abundance: but from him that hath not shall be taken away even that which he hath".

An economy is not something entirely or even partially distinct from the society which creates it and which it serves. The relationships which make up the South African economy reflect the priorities and attitudes of those who wield effective political power. The South African economy is what it is in large part because of the dualism that has been built into it. It is a system in which the 'haves' have because the 'have nots', have not. The economy overall, as it is now, is the material, unacceptable face of apartheid. It is not the market system, privatisation or capitalism or any other "ism" present or lacking that is particularly out of kilter with the needs of the "new South Africa", these are merely mechanisms. What is out of kilter is the apartheid nature of the economy itself. That this is the defect which blocks advance must be recognised by all participants in the debate. The defect will not just go away, it has to be exposed and taken away. That is the "re-perception" that I am trying this afternoon to awaken.

The serious debate about what type of economy is appropriate to the post-apartheid South Africa is not, except on the surface, about how best to bring about a desired allocation of resources and distribution of income, or how best to achieve a sustainable high real rate of growth. Only at the most trivial level is it about the helpfulness or otherwise of the neo-classical view of how the cake is shared or a bigger one baked. The core issue is what to do about correcting the taking "away even that which he hath" from the many of the majority who are "hath nots".

The core issue regarding the South African economy and the route to a resolution of reconciliation of opposing views, is that of *reparation*.

"Reparations", the plural form used more commonly than the singular, means "compensation". Reparation, the singular form, is defined in the *Shorter Oxford English Dictionary* as "the action of restoring to a proper state; the action of . . . mending, the action of making amends for a wrong done".

At the Faculty of Law graduation ceremony a month ago (24 April) Arthur Chaskalson dealt with "the transition from a repressive to a democratic order" and with issues of principle on which we must be absolutely clear "if we hope to put down firm foundations on which to build a stable society". That address made me see that without reparation – the action of making amends for a wrong done – the South African economy cannot be put into a proper state. Thus the need for South African business leadership to "re-perceive".

The reparation which is essential is not a policy or any political "ism". It is a moral, legal and political principle, and it is an entitlement, but an entitlement which can be exercised effectively only if the party making reparation both wishes to do so, and is able to do so. This involves the need for the leaders on the "left" to "re-perceive". Both sides – the free marketeers and the redistributive interventionists – thus, have to be made to see that "yesterday's logic" is no longer appropriate.

Chaskalson's argument is moving and compelling. Should, he asked the law graduands to consider, "newly democratic societies punish or pardon violations of the human rights committed under a previous repressive administration". As soon as one does so two imperatives rise to the fore – the intertwined demands for justice and truth. Truth is more than a matter of historical fact, known by the victims of injustice. Truth involves an unambiguous establishment and acknowledgement of the facts of past injustice. Reconciliation then requires coming to terms with the acknowledged injustice. "Justice in this context does not necessarily mean retribution [but] that where possible, reparation be made for past injustice" (speaker's notes pp 2, 3).

If we wish to be business leaders who make things happen, to involve ourselves in the process of national reconciliation without which this economy will not prosper and in the absence of which there is likely to be only poverty in South Africa in the long run, we have to accept the truth, acknowledge the injustice of the past and present and then, by consistent action in our daily business lives, give proof that we really understand what we have acknowledged and demonstrate that we will not permit the injustice to continue.

"First", said Chaskalson, "there should be a clear acknowledgement of the injustice of apartheid and of what it has done to the majority of the population. There can be no half-measures about this. Apartheid has caused poverty, degradation and suffering on a massive scale. It has denied to the overwhelming majority of the population access to the ownership and occupation of land, to proper education, and to fundamental rights and freedoms which are essential for the development of self-esteem. It has forced those who are not white into inferior positions in society, and has required them to live in degrading and humiliating conditions in which self-fulfillment is well nigh impossible. it has brought about the separation of families and has had a devastating impact upon family life. It has led to landlessness, ill-education and impoverishment within the black community. And it has been enforced by the application of harsh and unjust laws which are universally condemned as being a gross violation of basic human rights. Truth requires that this be acknowledged." (speaker's notes p 4)

As Arthur Chaskalson was reading that paragraph I found myself having to suppress an automatic defensive reaction – no, there is another side to the story; no, it was not like that, not when I could do anything to stop it; no, I did not do it. Then the truth and the relevance of the truth broke through: these shameful acts were the price extracted for the stability of the South African economy of the fifties, for the growth and industrialisation of the sixties, for the sophistication of the seventies, the non adjustment of the eighties, and all the while for the privilege enjoyed by those on the top side of the apartheid economy. I acknowledged to myself that it had happened and was continuing to happen, and understood that justice demands that reparation be made for dozens if not hundreds of years of disgraceful conduct. I saw also that the economy will be reshaped and put in healthy good order by that reparation.

Of course there is no pool of funds or stock of wealth with which to pay. The reparation must take the form of a priority in the allocation of resources to create appropriate output and as a prior charge on the allocation or distribution of future income. It must be understood by all to be an entitlement, not a handout; a compensation for past wrongdoing and so a continuing acknowledgement that all is not yet right. It must continue until all is right.

The reparation has many positive consequences. It is a means of enlarging effective demand for basic essentials immediately, to be paid for, of course, by non essentials forgone; and because it is an investment in human capital and public goods, it enhances output potential and present and future aggregate welfare.

It must be fully appreciated at the outset that the reparation transfers of this type, and the resource and income redistribution they will bring about, have nothing to do with political patronage or the spoils of power. Thus they are not the start of a mirror image set of crimes often associated with changes of regime in poor countries. South Africa is a rich country and reparation will keep it so. It will make a direct contribution to the reconstruction required to match the economy and the needs of the majority as well as all the minorities in South Africa.

It is obviously, only one element in a package of economic policies. It is, however, a crucial element because it carries with it catalytic potential. The reason is that the "re-perception" which readies one for the concept of reparation shows also that economic strategies of "inward industrialisation" (the Pretoria policy supported by top public sector economists) and of "growth through redistribution" (the policy of the left being refined in ANC circles) can readily be blended into a single coherent approach. In this approach a "strong but slim State" (the phrase used by David Lewis of Cosatu) would have the right and the duty to deploy a reasonably large but predefined proportion of South Africa's gross income as a reparation transfer with which to command resources to provide social services and physical infrastructure to the deprived of the apartheid years. Until the reparation is complete only the remaining income or output would be available to the rest of the economy.

As the reparation would be measured, and allocated, as a percentage of total income (a type of social dividend) all involved in the economy would have a shared and mutual interest in creating a precondition for rapid real growth. The environment would be conducive to capital/worker partnership experiments. The economy would be pulled by a competitive market based private sector in tandem with planned public sector involvement in seeing to the provision of basic needs and public infrastructure. Both sectors have roles to play. They complement each other.

The rapid growth rate that will result will intensify competition and stretch our resources. In this way, we shall ensure, returning to Chaskalson's words, that "equal opportunity will exist in substance and not merely in form" (speaker's notes p8) for it will be demanded by the free and competitive market forces characterising South Africa's growing economy.

Leon Louw*

Truth and fiction in the nationalisation vs privatisation debate

Rip van Winkle was a fictious American character who fell asleep for twenty years. When he awoke he was blissfully unaware of developments that had occurred in the meantime. The new South African debate on nationalisation versus privatisation seems to be dominated by latterday Rip van Winkles who have been asleep for not twenty but fifty years.

Almost all the developed countries of the world admit that most of their experiments in nationalisation have proved dismal failures. Governments everywhere are selling off inefficient, loss-making State corporations to the private sector. But South African economists attending a conference in Harare on a post-apartheid economy during the first week of May declared that concerted action should be taken to resist the "immoral and unacceptable" measures of privatisation and deregulation.

African National Congress economist Vella Pillay said: "Demonstrations of mass indignation could make it extremely difficult to privatise because that would reduce possible buyers. A firm position taken by the ANC and Cosatu that a future government would re-nationalise would itself be an obstacle to privatisation as it would discourage potential buyers."

This article will attempt to show that nationalisation would present a future South African government with numerous, probably insurmountable problems. It will also provide a critique of the anti-privatisation arguments currently doing the rounds.

The how and what of nationalisation

The ANC, NAFCOC and others have recently launched a welcome series of initiatives to consider *what,* if anything, should be nationalised. But thus far there has been almost no discussion amongst the advocates of nationalisation on *how* to nationalise. On the face of it, it seems sensible to resolve *what* should be nationalised before considering the details of *how.* But on further deliberation it becomes obvious that the questions should be asked and answered in the reverse order. Whether nationalisation is a good idea, and in what way it could help blacks (which is presented by its advocates as its main purpose), will depend entirely on *how* it is done, and indeed whether it can be done with any success at all in the real world of the 1990s.

Even in the unlikely event that a nationalised undertaking is efficient and free of corruption or debilitating political patronage and manipulation, other unavoidable disadvantages tend to outweigh benefits.

To consider some of the difficulties that lie ahead, one need only imagine being Minister of Finance in a future ANC or PAC South African government. You want to nationalise the banks. Do you nationalise all the shares or only a controlling interest? Do you confiscate shares with or without compensation? If the former, how much should the compensation be and where do you find the money? If the former, do you purloin all the shares or only those of major shareholders? How do you justify discriminating against investors in some companies but not others? What do you do about foreign-owned banks, or shares held by foreigners, and so on? Let us look at some of these problems more closely.

Confiscating without compensation

If shares in a given company are being confiscated without compensation, will they all be confiscated including those of small investors? If so, they may represent the life's savings of a labourer, or the inheritance of an impoverished widow. They may belong to a black person who is on the way to becoming economically empowered, or they could be the investment of worker's pension fund savings, or trade union funds.

If a little person's shares in one company are confiscated, he will feel unfairly treated by comparison to other, more fortunate investors with shares in a company remaining in the private sector.

One solution would be to nationalise everything without compensation, and have an equal distribution of injustice. But so far no prominent person has suggested this.

Alternatively, there could be a means test to ensure that only the shares of "rich" people, or of people with more than a certain number of shares, are filched. Or perhaps only the shares of whites would be taken without compensation, on the grounds that "whites acquired their wealth unjustly". But what of whites who clearly did not do so . . . who acquired their wealth in precisely the same way as a black person? For instance, what of a white person operating a taxi, who started with nothing and entered the market at the same time as a black taxi operator? Could confiscation be promoted as a blatantly racist policy? What would the consequences of these alternatives be?

Confiscation without compensation, no matter what its form, would be tantamount to deciding that there should be no meaningful future inflow of capital, technology or expertise from the West, at a time when injections of capital and expertise can clearly no longer be expected from the Eastern Bloc. Moreover, it would be a major disincentive to further domestic investment. The very possibility of confiscation without compensation occurring under a future regime would drive vast amounts of existing human and financial capital out of the country well in advance of nationalisation. Finally, such measures might be the straw that breaks the camel's back, leading to insurrection by the "white right". It seems clear that these and countless other harmful effects of confiscation would far outweigh any intended benefits.

Confiscation with compensation

The official ANC position on nationalisation is that it will definitely occur *with* compensation.

Nationalisation with compensation is as hard to achieve in practice as it is easy to call for in theory. This is the lesson the National Party learned on the two occasions it came to power on pro-nationalisation and anti-capitalism platforms. In the event, very little was nationalised and those enterprises which were taken over were relatively small. (The present vast size of the State corporations is due largely to the redistribution of immense amounts of money from ordinary South Africans to the State.)

There is a prevailing myth about the potential for increased or improved wealth redistribution in South Africa. Apparently few realise how much redistribution already occurs. Government critics who call for more redistribution argue that the "cost of apartheid" is excessive, without realising that most of that

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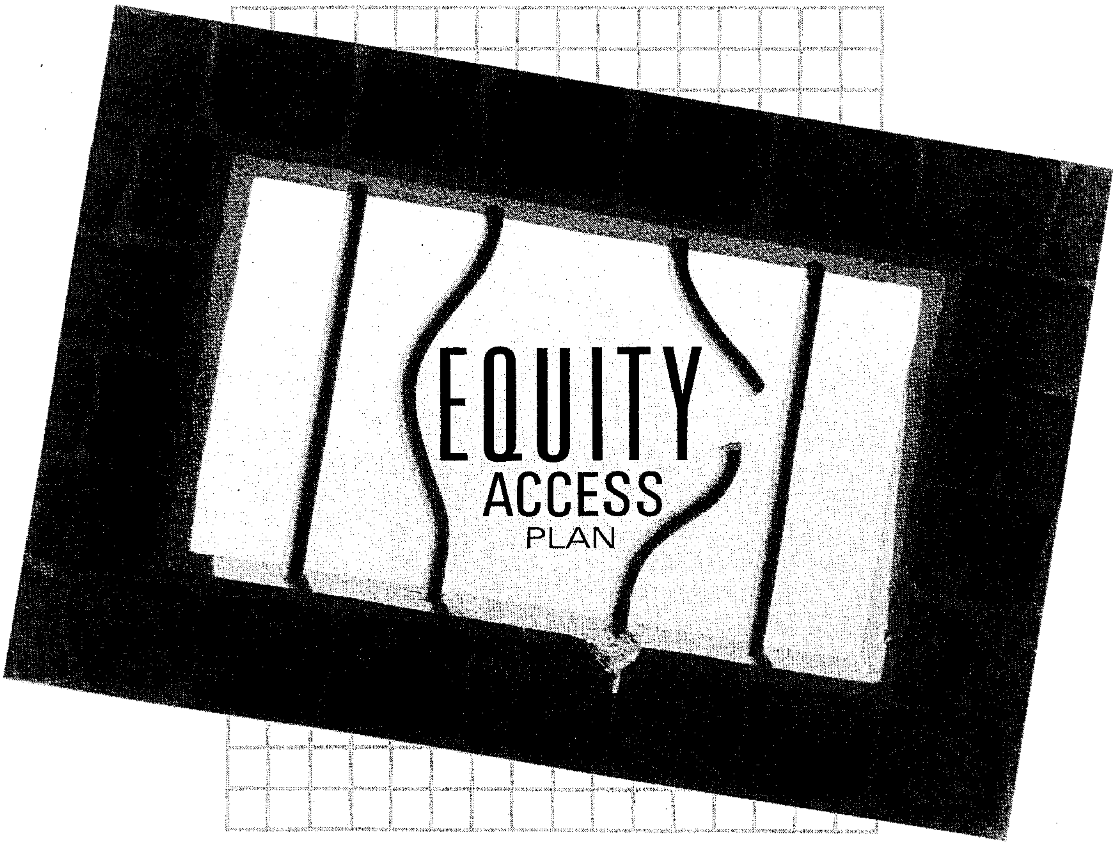

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cost is incurred in redistribution from white/rich to black/poor along the same lines they themselves propose. During the 1980s government spending on social and infrastructural upgrading in black areas reached extraordinarily high levels by any international standards. (See *Let the People Govern*, Amagi, 1989, pp 194-198.)

South Africa is one of the most redistributive countries in the world and most of the present redistribution is of the kind recommended by socialists. Cynics argue that the present level of redistribution is motivated by the government's desire to "bribe" blacks into acquiescence and compromise. But whatever the underlying reasons, there is not much scope for improvement. Don Caldwell has shown in *SA: The New Revolution* (Free Market Foundation, 1989, pp 60-72) that claims to the effect that substantial sums can be diverted from defense and the abolition of the tri-cameral system are groundless.

In sum, however much money a future government might have to spend, there will be nowhere near enough to finance the social programmes ANC or PAC spokesmen talk about, let alone the cost of compensated nationalisation. Moreover, every cent of money spent on nationalising or expanding a State undertaking is a cent diverted from some alternative such as building schools or clinics, providing pensions or supporting a rural development scheme.

These unavoidable truths have curtailed nationalisation in Zimbabwe and are giving Swapo serious food for thought in Namibia. At a recent IDASA conference on Namibia, representatives of the National Union of Mine Workers (NUM) were very visibly distressed on hearing the Secretary-General of their Namibian counterpart explain why his union would not advocate a minimum wage law or nationalisation, at least for the time being.

Any future Minister of Finance is going to be under enormous pressure to increase the present level of government redistribution of wealth to blacks substantially. Calculations based on the amount of wealth available reveal that this cannot be achieved by any method proposed so far, except, ironically, by privatisation.

At what price?

If assets are nationalised with compensation, will this be done at the market price? That is, will the government purchase shares on the open market? If this is the plan, as soon as it becomes generally known, share prices will be driven artificially high, forcing the State to pay more than the shares would have been worth but for nationalisation.

Alternatively, the government may try to negotiate the rate of compensation. If agreement cannot be reached, how will prices be decided? Perhaps by decree or by arbitration. If prices are fixed by decree, enormous uncertainty and disruption will be generated in financial markets. If they are low, the self-interest of investors, shareholders and managers alike will lie in stripping companies of cash and other assets. Moreover, new investment will all but cease, and companies will have no incentive to retain earnings for such purposes as staff development, and the maintenance and replacement of machinery. If decreed prices are high, the State will not have the money to pay them. Moreover, if the amount of compensation is to be fixed by arbitration, who will arbitrate? Is it possible to arbitrate a price so accurately that the State avoids paying either too much or too little, and thus avoids disrupting the economy unduly?

How much to nationalise?

Will nationalisation be of an entire enterprise or of only a controlling interest, which in some companies may be as little as 5%? If only part of the shares is taken over the State, this is likely to cause serious damage to those whose shares are not nationalised. Investors will – with good reason – expect the capital value of, and return on, their shares in a nationalised industry to decline. If they dump their shares on the market, the price will be depressed and they will lose through no fault of their own. Furthermore, as the value of the shares drops, the government's ability to raise capital from its newly acquired interest will be diminished.

Paradoxically, it is not those investors whose assets might be nationalised who should be particularly concerned. The ones who have the most to fear are those who will be left holding onto their investments in a deteriorating economy.

Making losses

At present, most government money comes from private sector taxes. In South Africa and elsewhere, nationalised industries have tended to consume rather than to supplement government revenues.

Does it make sense to use corporate revenues to buy corporations, when the likely consequences are that revenue sources will dry up and the newly nationalised corporations will eventually require subsidies to keep going? The new State will find itself with reduced revenues, and those still generated will be swallowed by subsidies instead of being available for social programmes.

There are countless examples of this negative spiral. The nationalisation of British coal mines and Zambian copper mines provide first and third world illustrations. In both:

- profits became losses, as the political motive replaced the profit motive;
- an erstwhile source of revenue started consuming revenue, as subsidies replaced taxes;
- employment dropped both in absolute terms and in relation to tonnages, as technology replaced people;
- relative wages declined;
- foreign exchange earnings declined in real terms;
- inefficiency crept in as the incentive system changed.

Which companies to nationalise?

The Freedom Charter calls for the nationalisation of mines, banks and "monopoly industry". Does this include all mines, many of which are quite small businesses? Does it mean only banks, or all financial institutions? Most financial institutions (and many banks) are in no sense part of the "commanding heights of the economy".

What is monopoly industry? The most oft-cited example is the Anglo American Corporation. Yet in everything it does it operates in highly competitive markets, with the single exception of the international marketing of diamonds through the Central Selling Organisation (CSO). Since the CSO is internationally based it is probably not possible for South Africa – or any other State – to nationalise it.

SA Breweries (SAB) is also commonly described as a monopoly. But like Anglo, in everything it does – with the exception of beer retailing – it operates in highly competitive markets. As far as beer is concerned there is now relative freedom of entry for competing breweries and even for importers, but regrettably not yet in retail sales. Over the years many would be competitors have entered the beer market: Whitbread, Carling, Stag, Luyt, etc. They have been unable to match SAB's excellence. If this kind of "monopoly" is nationalised what will the justification be? That it has served consumers, most of whom are black, too well?

Who will the new owners be?

The basis for the current nationalisation debate is the popular myth that the Freedom Charter calls for nationalisation. It does not. It demands that "The mineral wealth beneath the soil, the Banks, and monopoly industry shall be transferred to the ownership of the people as a whole." *Ownership by the State is not ownership by the people,* as Joe Slovo and other socialists now acknowledge. Private ownership is ownership by the people, especially if it is widespread as the free marketeers advocate.

Ownership by the people could mean many different things: co-operative ownership, participative management, State control of private companies, co-responsibility or Employee Stock Ownership Schemes (ESOPS). Slovo has recently argued that State control is more important than State ownership. Increasingly trade unionists, having observed the impotence of trade unions in countries with widespread nationalisation, are tending to prefer some form of effective participation in management. A few have noticed that the most effective unions with the highest wages, best working conditions and lowest unemployment tend to be those where there are a minimum of labour laws and a maximum of free competition amongst employers for their labour – that is, with the opposite of nationalisation.

Back to the *how* and *what*

Let us return to our imaginary Minister of Finance. On the appointed day he tells his Nationalisation Commissar to go and nationalise the "mineral wealth beneath the soil". His trusted servant returns crestfallen to report that this has already been done. Indeed, since the turn of the century numerous measures have been taken to ensure that the minerals are owned by the State. These laws were consolidated in the Mining Rights Act (No 20 of 1967).

The minerals already belong to the State, but until now they have been subcontracted by the government to the competing mining houses under mining leases. The reason for this is that provided the State negotiates a favourable lease formula and imposes high taxes on mine profits, it stands to make much more money than if it mines the minerals itself. The State collects a good share of the profits (up to 75%), whilst private investors take all the prospecting risks and provide the massive amounts of capital required to develop the mines. To nationalise the sub-contractors (mining houses) themselves would defeat the object of the exercise. The governments of Ghana, Zambia and Zaire nationalised their mining houses and lost untold millions. Now they are reprivatising the mines.

Our Commissar now turns his attention to the two biggest financial institutions, Old Mutual and Sanlam, which are also said to control most of the mining houses. Here he faces an even bigger problem because it turns out that Sanlam and Old Mutual have no shareholders. They are owned by millions of policy holders, a growing number of whom are black. Indeed, the Commissar reports, so few policy holders arrive at AGMs that blacks could easily control these institutions now. If, for instance, COSATU were to gain proxies from a small number of its members it could gain a controlling vote. If these two towering giants were confiscated it would cause an outcry amongst the black policy holders who would have more to lose than higher income whites with a spread of investments.

And what about the banks? They turn out to be owned by the institutions the government has already decided not to nationalise, or by foreign investors the government would prefer to stay in the country, and invest more than at present.

Myths about privatisation

The public debate around privatisation has produced a number of myths which I will attempt to debunk.

State monopolies should not be privatised because they will become private monopolies which will be even worse.

The fallacy here is the assumption that when a State monopoly is privatised it will remain a monopoly. Firstly, State monopolies can easily be ended (even without privatisation) by removing the laws which protect them from competition. For instance, SAA would cease to be a monopoly if private airlines were allowed to compete with it on major routes as is presently being mooted.

Secondly, State monopolies can be privatised so as to provide opportunities for small business rather than remaining one giant company. For example, SATS could sell rail-tracks, stations, coaches and/or engines separately as has been done in other countries. Small investors could buy sections of track, as has already happened with the Banana Express in Natal. Individuals could be owner-drivers of their own engines. They could book track and station time and offer towing services to coach or truck owners carrying goods or passengers.

Privatisation would lead to higher prices because there would be no more subsidies.

One of the advantages of privatisation is that many State businesses which are presently subsidised would not receive subsidies in the private sector. But certain privatised services, for example hospitals and schools, would probably continue to receive State funding. In these cases the question to be asked is: would the private sector do a better job than the State *with the same subsidy?* The world's experience shows that the answer is invariable "yes".

"Natural monopolies" cannot experience the benefits of competition.

Here it is necessary to question the concept of natural monopolies, which is based on the idea that in some areas of the economy, for example in the provision of electricity, it is "natural" to have one supplier only.

Presumably if such monopolies were "natural" there would be no need to protect them by statute from competition. Moreover, superficial research reveals that all so-called natural monopolies operate under conditions of effective competition elsewhere in the world. Competing suppliers of drinking water, telephones, train services, and electricity are common in other countries.

Privatisation leads to unemployment.

This argument is particularly curious, because by implication it concedes that the private sector can achieve the same productivity as the government sector with a smaller work-force (or increase productivity without increasing the workforce). It is usually true that fewer people are required to achieve the same productivity in privately owned businesses than in State corporations, but privatisation does not bring about unemployment. On the contrary, it encourages rapid growth in the economy – and this results in more jobs in all sectors.

The new racism

A new form of patronising racism has crept into the privatisation debate. Everyone, from the government through the DP, to economists and businessmen who used to favour privatisation, seems to be back-tracking. Growing numbers of prominent people are being reported as saying, in effect, that privatisation should be discontinued and the case for nationalisation partially conceded because this is apparently what most blacks want.

What this amounts to is that if enough black people are wrong about something, the expedient thing to do is to go along with them because they are not likely to change their minds when presented with the facts. This is insulting to blacks and untrue. Most of the Free Market Foundation's members are black, and in its training programme more than 600 black trainers present the case for free markets, including privatisation, to hundreds of thousands of other blacks. These trainers find that many of their students are in favour of privatisation to start with, and most of the balance happily change their minds if they find the arguments against State ownership convincing.

Even if it is not possible to convince the majority of black South Africans of the inevitable disastrous consequences of nationalisation before they become voters, analysis suggests that the practical problems facing a government bent on nationalising a significant part of the South African economy would be so great that it will probably never happen.

S J Terreblanche*

The compatibility of inequality and democracy: The necessity and merit of nationalisation and redistribution

1. The inequalities of apartheid

In his first public address after his release on the 11th of February, Mr Mandela said:

> "There must be an end to White monopoly on political power and a fundamental restructuring of our political and economic system to ensure that the inequalities of apartheid are addressed and our society thoroughly democratised."

With this important statement Mr Mandela made three things quite clear. The ANC demands the following:

(a) *Firstly,* a *fundamental restructuring* of the economic and political systems, and not merely a *reform* of the systems. It wants *systemic* restructuring, not adaptation within the framework of the present economic and political systems. Not *perestroika* within the old system or framework, but *perestroika* of the system itself.

(b) *Secondly,* it wants a restructuring of not only the political and/or constitutional system, but also of the *economic* system. Mr Mandela, however, put the issue of a restructuring of the economic system squarely on the negotiating table *parallel* with the restructuring of the constitutional system. It has now become clear that the ANC regards a fundamental restructuring of the economic system as no less, and perhaps even more, important than a reconstruction of the constitutional (political) system. This does not necessarily imply that the market orientated system should be replaced with a socialist system.

(c) *Thirdly,* that two of the main purposes of the reconstruction processes are
   (i) to *remedy the inequality* of apartheid, and
   (ii) to democratise our society thoroughly. Mr Mandela did not specify which one of these should get preference. Does the ANC want a democratic system to be used as an instrument for addressing the inequalities of apartheid? Or, does the ANC first want to address the worst inequalities of apartheid to create conditions conducive to a democratic system? I suppose it wants both, but given the severe inequalities, I think it is necessary to address at least some of the worst inequalities *en route* towards a democratic system. Let us look at some of the typical inequalities in South Africa.

2. The multiple inequalities

Now that South Africa is standing at the threshold of negotiations aimed at "creating" a New South Africa with a high degree of *social justice,* it is very relevant to focus attention on the grave injustice of the *highly unequal* distribution of power and privileges among the population groups as defined by statute. In an attempt to establish what Mr Mandela meant when he referred to the "inequalities of apartheid", it is necessary to highlight at least the following six *inequalities* as typical of the apartheid-based South African society.

(i) The inequality in the distribution of *political power* as symbolised by the concentration of effective parliamentary power in the hands of the National Party, which represents (after the September 1989-election) only 6,3 per cent of the *potential* electorate.

(ii) The *inequality* in the distribution of *economic power* as symbolised by the fact that less than ten corporate conglomorates control almost 90 per cent of the value of the shares listed on the Johannesburg Stock Exchange. This high concentration of economic power in the hands of a small group of large conglomorates is a very unfortunate and also unsound feature of the South African economy. It complicates the task of constructing a *democratic* economic system – or an economic system reasonably compatible with a non-racial democratic political system – enormously. That many (or all) of these conglomorates are multi-national companies with foreign subsidiaries carries the implication that their (potential) bargaining power is exceptionally strong. The foreign "connections" of the South African conglomorates add a very sensitive international dimension to the South African problem.

(iii) The inequality in the distribution of *property and land* as symbolised by the fact that the Land Acts of 1913 and 1936 still prohibit 28 million Blacks (with a few exceptions) to own land in 87 per cent of South African territory.

(iv) The inequality in the distribution of *opportunities* as symbolised by the large social spending "gap" in the government's social expenditure (on education, housing, medical services and pensions), which in *per capita*-terms is at least five times larger for the relatively wealthy Whites than for the poor Blacks. In the recent Budget, social spending on Whites (mainly education) is estimated to be in *per capita*-terms three times higher than the *average* social spending on the total population.

(v) The inequality in the distribution of *experience* as symbolised by the statutory disempowerment of people other than White and the ensuing "underdeveloped" leadership potential in these circles. Political disempowerment is not only the result of disenfranchisement, but also of the impaired political leadership after decades of bannings, gaolings, restrictions, detentions and lack of ordinary opportunities.

(vi) Finally, the large inequality in the distribution of *income* as symbolised by the fact that the Gini-coefficient of 0,68 for South Africa is the largest of all countries in the world for which this kind of coefficient has been calculated, indicating that personal income is more unequally distributed in South Africa than in any other country. If we put the *per capita*-income of the Whites in 1980 at 100, those of the Asians, Coloureds and Blacks were 26, 20 and 9 respectively (in round figures).

Many reasons of an historical, cultural and demographic nature can be furnished for all these inequalities and for their close correlation with racially defined groups. What matters here is that the structures and policies of apartheid have created and maintained, over a period of at least 100 years, social, economic and political conditions that were exceptionally favourable for Whites and unnecessarily unfavourable and even exploitative for the rest of the population. Although apartheid cannot be blamed for all the inequalities, a very large (albeit indeterminable) part can be attributed to it.

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If in the absence of apartheid – with its policies of dispossession, disempowerment, discrimination, deprivation and neglect – the *per capita*-income of the four groups (as presently defined) were not (as was the case in 1980) 100, 26, 20 and 9, but, say, 100, 35, 25 and 19 (i.e. 5 percentage points more for Asians and Coloureds and 10 points more for Blacks), South Africa would have been an enormously better and more humane country than at present.

In the face of the sharp inequalities and the corresponding hardship for people other than Whites, it has not only become desirable but also indispensable for the Whites to acknowledge explicitly that a huge "apartheid debt" has accumulated in their books, that structural factors were responsible for it and that a major effort to repay this debt within a reasonable period – i.e. over a timespan and in instalments that will not cause unnecessary disruption – cannot be postponed any longer.

In the recent Budget the government has made a first and tentative gesture to acknowledge guilt for the exploitative nature of apartheid and has accepted responsibility – also very tentatively – for affirmative action to rectify wrongdoings of the past. A R3 billion trust fund for socio-economic upliftment and the removal of backlogs has been established for the deliberate purpose of symbolising an important change of heart on the part of the NP government.

Unfortunately, R3 billion is pathetically little in relation to what is needed. One feels inclined to discredit it as a publicity stunt to distract attention from the fact that the Budget was yet another typical apartheid, or White man's, or rich man's, Budget.

The creation of the R3 billion fund is a clear indication that the government has totally misunderstood the nature of 20th century representative democracy and its public financial and welfare State implications. If the government is really concerned about socio-economic upliftment of the disenfranchised and deprived Black population, it should explicitly acknowledge the untenability of the present social spending "gaps" and make a clear commitment concerning the closing of this "gap" as a high and pressing Budget priority.

To give the necessary high priority to the closing of this "gap", every component of social spending should remain within the normal framework of public finance and should be synchronised with short and long term financial and economic considerations to ensure the most favourable trade-offs in advancing towards greater social justice. Such an approach will also highlight the dire need for an immediate integration of all public facilities.

Instead of creating a charity-like fund outside the orbit of normal fiscal practice, the government would have done much better if it had appointed a representative non-racial body to advise it publicly on all aspects related to the use of public facilities and the closing of the social spending "gap". Such a body could have made an enormous contribution by sensitizing the public to the kind of social spending that would in any case become normal fiscal practice in a future non-racial democracy. I sincerely hope that this year's Budget was the last typically apartheid, or White man's, or rich man's, Budget.

3. Is democracy attainable and compatible with the multiple inequalities?

The multiple inequalities in South Africa create a dire need for *democracy* but at the same time the inequalities represent a state of affairs that is all but conducive to the establishment and maintenance of a democratic system. It is illuminating to focus on the apparent *incompatibility* of the present state of affairs on five different levels of society with the state of affairs that will facilitate a transition towards a true democracy. Such a focus gives us an opportunity to distinguish between the state of affairs that prevails today and that which OUGHT TO prevail if we want to be successful in the creation of a truly democratic South Africa.

(i) On the level of attitudes

The present situation is characterised by *conflicting* and divergent attitudes, views, values, claims and expectations between the different population groups. The conflict is in certain respects so severe that we can speak of racial hostility.

Exprience in other countries shows that to establish and maintain a stable democratic system, a convergence towards *common attitudes,* values and views is highly desirable while the claims and expectations of the several groups should be scaled down to realistic levels. *En route* towards a democratic system we will need a high degree of inter-group tolerance and empathy, while the privileged White group would have to display a preparedness to redress its mistakes and wrongdoings under the apartheid system.

(ii) On the social level

South African society is characterised by apartheid, separation, ethnic conflict and by language, cultural and religious barriers. The lines of cleavage are racially determined and cumulative in nature. The several racial groups are locked in a zero-sum-game – what one group wins is often at the expense of another. South African history over a period of 340 years is the sad tale of ongoing group conflict. Each group has tried – and is still trying – to get rich by plundering the others!

To create a stable democratic system we have no choice but to integrate the different groups and to work very hard at creating a single South African identity with common and overlapping interests and loyalties. In the New South Africa the lines of cleavage should be non-racial and *cross-cutting.*

(iii) On the macro-economic and international levels

Since 1974 the South African economy has been in a state of secular stagnation, growing un- and underemployment, serious balance of payment problems, a large outflow of capital, chronic inflation and creeping poverty. It is truly a very dismal state of affairs. As a developing country with a very high population growth rate and large pockets of poverty and unemployment, the (shrinking) tax base of the economy is simply too small to sustain a democratic system with a broadly based representative parliament. If a truly representative parliament for all 37 million people were to be established tomorrow, the representatives of the disadvantaged, say, 70 per cent of the population would, in all probability, be inclined to use the fiscal powers (vested in the majority) to redress the poverty and deprivation of the said 70 per cent in too short a period of time. It is important to realise that the tax base of the underdeveloped and stagnant South African economy is simply too narrow to sustain a fully developed democratic parliamentary system. This is not an argument against democratisation; it is an argument to point out an important stumbling block in the road towards a democracy.

In order to progress towards a democratic system we desperately need a high growth rate, sustained for a decade or longer. A high growth rate is necessary to create job opportunities, to soften the severe poverty problems, but especially to broaden the tax base of the economy. The only way to attain the needed high growth rate is successful political reform that will not only lead to a lifting of sanctions, but also to a large influx of foreign capital.

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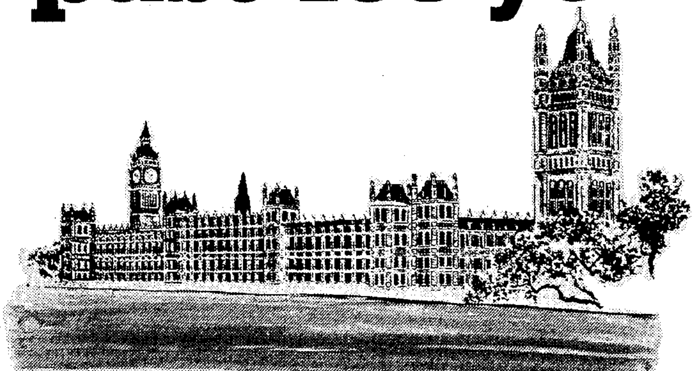

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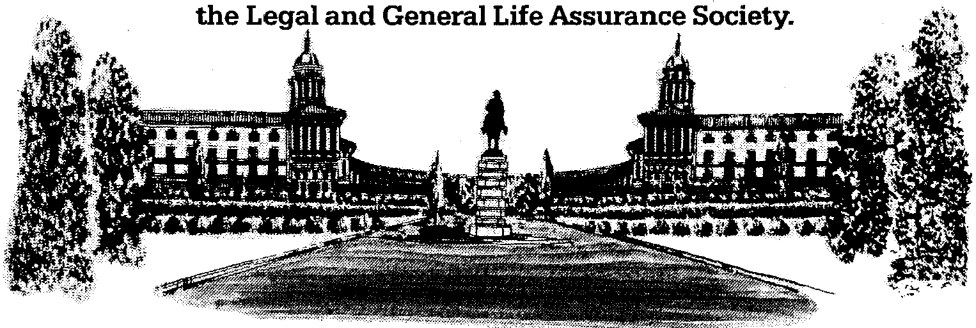

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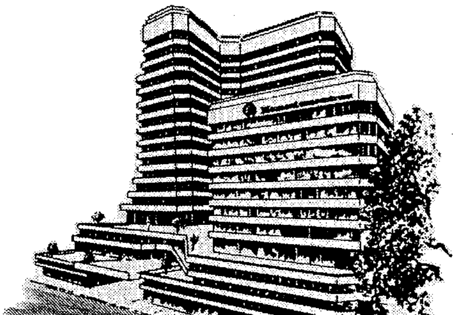

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ratio has tripled while saving rates are at an alarmingly low level. Consequently we need a very large influx of foreign capital. To maintain an annual growth rate of 5,5 per cent in a (say) ten-year Transformation period, we will need an influx of at least $10 billion annually.

Is it possible to attract such amounts? It will be extremely difficult. During the Transformation period we will have no choice but to create conditions that will continually be attractive enough to draw large amounts of foreign capital.

(iv) On the budgetary level

We referred earlier to the inequality in opportunities and to the large social spending gap. In the March Budget R28 billion was earmarked for social spending. Almost R12 billion will be spent on the (relatively wealthy) 5 million Whites or an estimated R2 300 per person. Almost R12 billion will be spent on (the very poor) Blacks or an estimated R420 per person. The remaining R4 billion will be spent on the Asians and Coloureds, or an estimated R1 000 per person.

These inequalities in the social spending pattern have been broadly maintained since 1910 and were for the greater part of the intervening 80 years even more unequal. The *cummulative* effect over at least four generations, and the consequential effect on opportunities and performance, is undoubtedly very large.

I do not think there is anything that demonstrates the social injustice of apartheid more dramatically than these unequal social spending patterns. Perhaps no other aspect of apartheid has been more discriminatory than the unequal budgetary treatment!

I hope it will be appreciated that the movement towards a democratic system will have important implications for the public finances. Any group of people that has been disenfranchised for a long time, and suddenly obtain parliamentary bargaining power, is always inclined to use its newly acquired power to influence budgetary spending in its favour. We have every reason to believe that a broadening of parliamentary democracy in South Africa will also have this effect.[1)]

It is useful to look at the public financial implications that parliamentary democracy have had in Western or OECD countries. In 1910 public spending was less than 10 per cent of GDP, and social (or welfare) spending was very small. By 1955 public spending had increased in OECD countries to 28,5 per cent of GDP, to 41 per cent in 1975 and to 45 per cent in 1983. It has declined to about 42 or 43 per cent at present. Just more than half of public spending in OECD countries is social spending on education, health services, pensions and housing. This high level of social spending – of almost 25 per cent of GDP – in OECD countries, must be regarded as a luxury that only the highly industrialised First World countries can afford. In the recent Budget the amount earmarked for social spending in South Africa was 10,3 per cent of GDP. Given the level of economic development in South Africa, we can hardly afford a much higher percentage of GDP for social purposes.

It is very important to realise that the abolition of apartheid will release a demand for a variety of economic benefits and social services that has been suppressed purely by apartheid restrictions. The demand for education and adequate resources for Black South Africans within the education system will probably constitute the largest single budgetary increase in the short run. And, given the poorer health of the majority of the population, relative to that in countries of the same level of development, improving access to health facilities must be very high on the list of priorities of a future democratic government. The same can also be said about poverty relief, pensions and housing.

It is of course very difficult to speculate on the size of the amount that will be necessary to meet these additional demands. But if an attempt had been made in the present Budget to increase social spending to reach *parity* in social spending for the total population at current White benefit levels, it would have necessitated *additional* social spending of R56 billion. Total social spending would then have increased to R84 billion (or 31 per cent of GDP) and total government spending to R130 billion or 48 per cent of GDP! This is clearly unattainable.

If an annual growth rate of 5,5 per cent can be maintained during a 10 year Transformation period (and that will not be an easy matter), the percentage of GDP needed to attain parity for the total population at current White benefit levels will decline from 31 per cent of GDP at present to approximately 22 per cent of the considerably higher GDP at the end of the 10 year period.

(v) On the level of economic structures and/or power relations

We have already referred to the high and unhealthy concentration of corporate power in the South African economy. Over and above the concentration of power and wealth in less than ten conglomerates (with international connections), we must also take note of the widespread wealth and economic empowerment in White circles and contrast it with the relative economic disempowerment of people other than White. Given the unequal distribution of economic power, the emergence of the Black trade union movement must be regarded as of critical importance.

En route towards a political and economic democracy, a more "democratic" dispersal of corporate power is necessary. How to bring this about without killing the goose that lays the golden eggs, or not to make the goose fly away to its foreign subsidiaries, is a tremendously difficult problem. Those who think that nationalisation can solve this problem are unfortunately mistaken.

But what should be done about the very unequal distribution of economic power and the relative economic disempowerment of the Blacks? The first thing to be done is to try to convince both the White political and the White economic establishments of the serious nature of the unequal distribution of economic power and of the need to address this problem as part and parcel of the democratising process. The second thing to be done is to throw the ball in the court of the corporate sector. We should request it to take the initiative and come forward with proposals on how to "democratise" economic structures to a satisfactory level, and how an (adequate) economic empowerment of Blacks could be brought about.

4. The nationalisation issue

In many White circles – and especially in White business circles – it has for years been taken for granted that the reform needed in South Africa concerns constitutional matters only and that reform and/or restructuring of the economic system is neither necessary nor desirable, or that it would be advisable to leave the economic system intact to the extent possible, given the proven (or alleged) merits and productivity of the so-called (or alleged) freemarket Capitalism or private enterprise system in South Africa. To this belief Mr Mandela puts a dramatic end when he said on 13 February that the nationalization of the gold mines is still part and parcel of ANC policy. Although Mr Mandela could have stated his case on nationalization with greater circumspection, his statement – irrespective of the merit of it – has played a very important functional role. It shook the Rip van Winkles of the business community – and a very large percentage of them meet this description – out of their "sleep" and complacency on the need for the reconstruction of the South African economic system. Since Mr Mandela's nationalization speech, business people are clearly prepared to talk about economic reform issues and to consider options that were simply unthinkable a year ago. Looking back one cannot but ask how it was possible for the great majority of the business community to have been so naive as to think that reform in South Africa will not affect the economic system and the distribution of property and income.

The reaction in some business circles – and especially in the Commanding Heights – was almost hysterical. This was really not necessary. Firstly, people ought to have realised that given the whole history of the ANC there cannot be but a great difference between their reform rhetoric and their ultimate reform actions – at least at this stage of the debate.

Secondly, and more importantly, given the very large inequality in property, income and opportunities between Black and White after 100 years of Apartheid and Colonial and (highly centralized) South African Capitalism, we should have expected that the ANC will consider every possible instrument to redress the inequalities. It would in fact have been very strange for the ANC to exclude nationalization as a possible policy instrument for bringing about a more equal distribution of property. I have no authority to give an interpretation of the real intentions behind Mr Mandela's remark on nationalisation. But I think it is reasonable to assume that he used the word "nationalization" as a code word to emphasise how strongly the ANC feels about two matters: the restructuring of the economic system, and especially of power relations and control, and the need for a redistribution of income as well as property.

Thirdly, the ANC is well aware of the use the NP government has made of public corporations to bring about the upliftment of the Afrikaners. Although the NP has not actually nationalised existing private enterprises, it has established new public corporations and/or expanded existing ones and used them as instruments to expand the Afrikaner's role in the economy. The most important of these public corporations are Iscor, Sasol, Eskom, Foskor, SABC, SATS and the Department of Posts and Telecommunication.

In referring to those public corporations and the way they were used by the NP government to create lucrative job opportunities for Poor White Afrikaners and opportunities for Afrikaner entrepreneurs to gain the necessary experience in business matters, I am not saying that an ANC or a future democratic government should copy the NP policy on public corporations. All I want to say is that we should expect the ANC to use the idea of nationalisation at least as a propaganda instrument. But if one considers the use made of public corporations by the NP government over the last 40 years, the NP and Afrikaans speakers should be very careful in their criticism of the ANC's nationalisation policy if they are not to be guilty of serious hypocricy. In an editorial in *Die Burger* on 10 April 1990, a sharp attack was launched on the ANC for allegedly not making any contribution of merit to the debate on economic policy. The editorial contained inter alia the following sentence: "The rhetoric coming forward from ANC circles, is the *socialistic parrot-like screams* (sic) on nationalisation and the redistribution of income". I regard this kind of criticism on the ANC from people and a newspaper that have been pampered and "subsidised" for so many years at the cost of the majority of the population, as shocking and despicable.

5. Nationalisation as a "plank" in the ANC policy platform

The American political lexicon (or jargon) often refers to the policies of a political party as a "policy platform" and describes different policy instruments as "planks" in the policy platform. In terms of this political jargon, we can say that we should expect that nationalisation will undoubtedly remain a plank in the ANC's policy platform as part and parcel of the policy to bring about a somewhat more equal distribution of ownership of enterprises, property and land. The real question is how "narrow" or how "broad" this policy plank should be.

If we take the poor state of the South African economy, the widespread poverty and the need for a high economic growth rate and international competitiveness into account, I want to make a plea that this "plank" should be a relatively "narrow" one. During the transition towards a post-apartheid economy and during the early phases of such an economy, South Africa will be highly dependent on a large influx of foreign capital and entrepreneurship, as mentioned earlier. In order to encourage foreign investment and to maintain a high growth rate, external and internal business confidence is of crucial importance. Any New or Transitional government, will have the difficult task of creating conditions attractive or friendly enough to promote the necessary foreign involvement and confidence. If nationalisation features prominently it may easily undermine efficiency and job-creation, harm business confidence and keep foreign investment out.

Although ordinary nationalisation and State ownership of enterprises may not be advisable at this stage, schemes to offer the workers meaningful participation in company equity could be a more promising alternative. The fact that at least 90 per cent of all shares are still in White hands creates both the need and the opportunity for variants of company-specific share-ownership schemes. Another alternative to nationalisation is the appointment by a new democratic government of a certain number of directors on the boards of certain companies which are regarded as of strategic importance.

A future democratic government may be inclined to use the economic policy of the NP after 1948 as a model or as a justification for its own economic policy. It would be necessary to convince the future democratic government that a repetition of the NP economic policy for Afrikaner upliftment will have disastrous consequences. Although a need for measures of socio-economic upliftment of the Poor White Afrikaners may have been necessary after 1948, the NP has completely overdone it. Almost immediately after the NP took office in 1948, it started to implement a three-pronged programme. Additional discriminatory measures were enacted and extended towards the Coloureds and Indians, the bureaucracy was systematically enlarged and the parastatals were enlarged and used to create lucrative job opportunities for (mainly) Afrikaners, and a variety of welfare (or redistributional) programmes were launched for the upliftment of (mainly) the Poor White Afrikaners.

From the Afrikaner point of view these measures were very advantageous. After some 20 years the Poor White problem had been solved to a satisfactory degree. Unfortunately, the NP continued with its policy of White (and especially Afrikaner) protection and privileges. While the Afrikaners' *per capita* income was less than 50 per cent of the income of their English speaking counterparts in 1948, it has risen to 75 per cent of (now much higher) income of the English speakers. The main reason that a new democratic government cannot copy the NP's economic policy – including the use it made of parastatals (or "nationalised" concerns) – is that the Afrikaners were (at that stage) only 12 per cent of the population while the Blacks are no less than 75 per cent. If a repetition of the NP's economic policy should bring about a destruction of the South African economy – as may easily happen – it will be very much to the disadvantage of the poor three-quarters of the population.

Although measures to bring about a more equal distribution of property, income and opportunities for Blacks are necessary and justifiable, a new democratic government unfortunately cannot afford to intervene as drastically in the economy as the NP government did. Firstly, what the NP has done is wrong, and we cannot afford the same wrong-doing a second time – certainly not to the same extent. Secondly, the numbers involved are such that a solution of the "Poor Black" problem over a period of 20 years is simply not possible, given the tax and empolyment capacity of the relatively small modern sector of the South African economy.

8. The big trade-off

En route towards a truly democratic South Africa we shall continuously be confronted by the terribly difficult trade-off between *growth* vs *redistribution* and *efficiency* vs *equity*. To succeed at every point in time with the correct trade-off, we shall need the Wisdom of Solomon.

The case to give preference to Growth and Efficiency is very strong and will remain strong for many years. But the case for Redistribution, for Equity, for greater Social Justice, for Poverty Relief programmes, for the Redress of the Inequalities of Apartheid, for appropriate Land Reform Programmes, etc., is also very strong – perhaps even stronger! The only chance we have to make continually reasonable trade-offs between *Growth* and *Equity* is to to and maintain a growth rate of at least five per cent per annum. But that will only be possible if a high influx of foreign capital takes place and we will only succeed in attracting the necessary foreign capital if economic conditions conducive to growth, efficiency and economic stability can be maintained. But at the same time, the rest of the world will only be prepared to "normalise" relations with South Africa if apartheid is abolished and if *visible* movement towards greater social justice occurs!

In conclusion we should realise that it will be extremely difficult to reach compatibility (or reasonable trade-offs) of *Growth* and *Redistribution*. Success will depend critically on the preparedness or attitudes of three collective parties:

Firstly, a preparedness of people other than Whites to scale down their expectations and to be patient;

Secondly, a preparedness of the relatively wealthy Whites to make sacrifices to redress the wrong-doings of apartheid and to repay their "apartheid debt", and

Thirdly, a preparedness of the rich countries of the world to give development aid to South Africa and of private enterprise in those countries to (re)invest on a relatively large scale in a non-racial democratic South Africa. We can only hope for support from foreign private companies if the Southern African based companies set the necessary example of commitment towards South Africa.

Given that attitudes and social and economic circumstances are at present not conducive to the immediate establishment and maintenance of a truly democratic system, the processes of normalisation, liberalisation and democratisation should meanwhile be promoted as strongly as possible on every level of society. The democratisation and integration of every facet of South African society must be regarded as an indispensable (pre)condition to create a *civic society* capable of sustaining a constitutional and economic democracy in the social democratic sense of the word. Although it may sound paradoxical, the success of such a broadly based process of *democratisation* has become an important (pre)condition for democracy.

Notes

1) During February of last year I wrote a rather innocent article in *Business Day* referring to the public financial implications of a process of democratisation. I argued that it is necessary to acknowledge explicitly the public financial implications of a democratic system and stressed the need to address this issue during negotiations. This remark sparked a two-month long vendetta against me in *Business Day*. I hope Mr Ken Owen will one day acknowledge the unreasonableness of the vendetta and apologise for the part he played in it.

Pieter J. du Pré le Roux*

The case for a social democratic compromise†

Introduction

In this chapter it is argued that a South African version of social democracy is the only system, under the present circumstances, capable of ensuring political stability and economic progress in this troubled country.[1] The siege economy and radical socialism – the two options which in my opinion are most likely to be realized and in that order – understandably have a strong appeal to different constituencies in South Africa, but neither is capable of delivering what is promised.

The case for a social democracy is firstly based on *historical evidence*. The existing social democracies[2] have been more successful in eliminating economic and political domination, whilst at the same time maintaining high rates of growth relative to either the more radical socialist or the more conservative capitalist systems. However, valid points of criticism can also be raised against some aspects of these social democracies. This chapter argues that South African circumstances require the evolution of a version of social democracy with a more radical approach to issues such as land redistribution and the democratic control of elected representatives.

There are also pragmatic considerations favouring a South African social democracy. At present it is the only type of system which could emerge from a negotiated settlement. Both the socialists and the free marketeers who favour a settlement would rather see the conflict escalate than settle for the opponent's economic system. Many within these opposing groups may, however, reluctantly accept a social democracy as a compromise solution, rather than see the continued destruction of South Africa's economy and the escalation of military conflict into a full-blown civil war.

A third argument for a South African social democracy is the contention that it would be far more successful in eliminating racial domination and in enhancing the power of black South Africans than the traditional socialist systems. Old-style Marxists would dispute this, but they have a very unsophisticated understanding of power and domination.

Although I have no doubt that a social democracy would best serve the interests of most people in our land, there are a number of reasons why it is unlikely that this system will emerge from the present confrontations. But the future is not predetermined. In the end, significant groups of actors may opt for a social democracy, even if only reluctantly, and South Africa could then realize her not-insignificant economic potential.

Many liberal South Africans believe in the 'free marketeer' solution to South Africa's economic woes. This 'solution' does not merely imply a free market (an institution which is an important pillar of social democracy) but also a nightwatch government which refuses to intervene on any level to rectify market failures and historical injustices. In the specific historical circumstances in which South Africa finds itself, this solution has as little chance of success as the tricameral parliament. It is foolish to believe that black South Africans would tolerate a perpetuation of white economic domination once white political domination has been brought to an end.

The changing nature of social democracies

In this section an attempt is made to explain the concept 'social democracy' by describing it in terms of the actual systems which have evolved in countries where social democratic parties have held sway. One cannot turn to the blueprints contained in the original party programmes. Social democracies as they exist in Europe today have turned out to be of a radically different nature from what was foreseen at the birth of the social democratic movement.

During the first few decades of this century (and until very recently in the case of some countries) the end goal was to achieve fully-fledged socialism, including the nationalization of larger enterprises. Social democrats broke ranks with the more radical socialist groups, not in rejecting this goal, but in arguing that socialism could be established gradually through democratic processes. Revolutionary changes, the social democrats argued, would be counter-productive.

Today virtually all social democratic parties have turned their backs on this end goal as an essential component of a socialist and democratic society. In his speech to the meeting of the Socialist International held in Stockholm in June 1989, the Swedish Prime Minister, Ingmar Carlson, argued that the goal of social democracy is to establish political control over the means of production, and not necessarily collective ownership. 'He just about declared collective ownership dead,' a Swedish newspaper concluded, quoting the following comments:

> What we have seen in eastern Europe, for example, shows that a formal take-over of the means of production did not in any way guarantee the realization of the socialist goals of liberty, equality and solidarity.
>
> In the communist system, as in the case of unbridled capitalism, people are suppressed by power cliques over whom they have no influence. They are exploited to realize goals which were set without their participation (*Svenska Dagbladet,* 1989, p. 5).[3]

But if socialism for the modern social democrat is not primarily the collective ownership of the means of production, what does it in fact entail? In general the intention is to ensure democratic participation in setting the priorities for society in both the social and the economic spheres. Social democracy is a system committed to a process whereby an attempt is made to develop a consensus on economic policies acceptable to a wide spectrum of groups and classes in society. The twin goals of this exercise are to *enhance overall economic welfare* and to create a much greater degree of economic equality, or to put it differently, to *eliminate economic domination*.

In the practice of European social democracies this approach has found its expression in *welfare state* measures providing national health and social security for all; *social investments* ensuring equal access to good education and health services; *intervention in the labour markets* to regulate negotiations between the trade unions and industry and commerce; *consumer protection* legislation; legislation to *protect the environment;* and many other interventions in and modifications of the market economy.

Socialism in the dictionary of modern-day social democrats does not primarily imply the socialization of the means of production; neither does it imply central or indicative planning. Indeed, social democrats have been more inclined to trust market signals with regard to the relative efficiency of different in-

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dustries than have many more conservative governments. Social democrats are concerned with how the economic benefits are distributed, rather than with who owns the means of production. In practice, the new goal of ensuring a greater degree of equity in the distribution of income and wealth, and a greater degree of democratic control has primarily been realized by redistribution out of growth.

Although there was a time when many of them would deny it, social democratic parties accept that there is a trade-off between redistribution and economic growth. However, in the early phases of social democracies, much of the redistribution took the form of social investments with a high economic return, such as the establishment of efficient education and health systems. There is much to indicate that these investments increased the productive capacity of social democratic countries in the long term and thus contributed to higher rates of growth. Gunnar Myrdal somewhat over-optimistically claimed that social investment in education and housing, which improved the 'quality of the factors of production', had no negative consequences for growth:

> By . . . raising the level of national productivity the reforms have themselves provided the additional resources required for making them economically feasible and for securing at the same time further continued social reform policy (Myrdal, 1957, p. 47).

Even in the fully developed social democracies, where a very significant proportion of the economic redistribution which takes place clearly does not have economic returns, the commitment to full employment implies that economic growth remains a major goal. Indeed, one of the reasons for the rapid emergence of the Greens in Germany and later in the Scandinavian countries, was the reluctance of the social democratic parties to sacrifice economic growth for the sake of ecological considerations.

Socialism for social democrats implies a system in which the trade unions play a central role in determining the economic scenario. Although there is no significant longer-term indicative planning similar to that of the French and the Japanese, possible annual growth rates and the effect of different rates of increase on wage packets are carefully calculated when wage demands are considered. In Sweden, because of the very high premium placed upon full employment, trade unions even acquiesced in falling real wages during the 1980s, in order to increase the economic growth rate. As a consequence, unemployment in Sweden is today under 2 per cent. It does not follow that concensus is regularly reached in central negotiations between the trade unions, the employer organizations and the state. Nevertheless, because of the central role that the analysis of macro-economic potential plays in wage negotiations, a short-term consensus is not uncommon, and differences when they do arise are often marginal, even though the longer-term goals may differ substantially.

Although most pricing in social democratic countries is left to the market, a number of central prices such as the interest rate and the exchange rates are controlled. In some social democracies, part of the financial sector has also been nationalized. The rules of tax-free investment funds enable the government to encourage private sector investments in a counter-cyclical fashion. Various degrees of control are exerted over foreign exchange dealings and foreign multinationals have at times been limited to 50 per cent control of their subsidiaries in social democratic countries. Fairly convincing arguments have been put forward to show that a number of these interventions are no longer as successful as they used to be, and that some of them may be counter-productive at this stage of development. Nevertheless, the evidence seems to be quite clear that at certain stages most, if not all, of these measures benefited economic development.

In social democratic countries labour unions play a central role, not only in setting the overall macro-economic agenda, but also in determining the day-to-day working conditions on the factory floor. In recent years trade unions in most social democratic countries have, in terms of co-determination or a *mitbestimmung* approach, been given access to the boardrooms. During the past decade or two, democratization of economic management has, within the country and within firms (rather than collective ownership) become the cornerstone of the socialism of social democratic countries.

An evaluation of right and left-wing critiques of social democracy

Right and left wingers have standard objections with which they dispose of any suggestion that South Africans should consider a social democratic compromise rather than their respective versions of the true faith. It is necessary first to respond to these general arguments before the case for a social democracy for present day South Africa is developed. Although some of the questions raised by the critics do deserve serious answers, the inability of both sides in the debate to learn from the history of the twentieth century, and their dogmatic adherence to outdated nineteenth century social science concepts, would have been amusing had the commitments and actions which flow from these ideas not been so potentially catastrophic for our country.

In analysing the free marketeers' and the radical socialists' criticism of the social democratic model, no attempt is made to deal with the substantive aspects of these alternatives. The temptation to attack the philosophy and the alternative model of the free marketeers has been resisted, for there is no possibility whatsoever that this model will be implemented in South Africa under present conditions. Some of the theoretical underpinnings of the Marxist socialist model are questioned, but even though this type of model is most likely to emerge if a compromise is not reached in the next couple of years, it is not possible within the limits of this essay to systematically discuss the problems associated with it.[4]

The free marketeer critique of social democracy

In an obvious reference to Childs' (1936) *Sweden, the Middle Way,* Hayek (1944, p. 33) attacked the conviction 'that it must be possible to find some Middle Way' by claiming that:

> Both competition and central direction become poor and inefficient tools if they are incomplete; . . . a mixture of the two means neither will really work and . . . the results will be worse than if either system had been consistently relied upon.

The success of social democracies in the past 50 years has shown that this particular mix does work, and from the perspective of the great mass of people it has worked much better than the centrally planned economies and those free market economies in which government showed no concern whatsoever to correct market failures. Sweden, the first country to successfully implement Keynesian demand and anti-cyclical investment policies, avoided the depths of the depression in the 1930s and the high levels of unemployment of the 1970s. Although it is accepted that in the modern world economy Keynesian policies applied in one country only can have but limited success, the principle of democratic reflection on the economy and correction of market failures (where the economic instruments permit such intervention) continues to be applied with a considerable degree of success. To adhere dogmatically to Hayek's assertion, as some present day free marketeers do, is to ignore the history of the past 50 years.

More sophisticated conservatives have accepted the argument that social democracies have worked, but reject the suggestion that they therefore present a suitable model for South Africa. They argue that only mature economies can afford the luxury of such a system.

This argument is clearly correct if a plea for a social democracy is taken to imply that the same types and levels of welfare expenditure found in developed countries must apply in South Africa. However, 60-70 years ago, real per capita income in Sweden was not dramatically different from South Africa's today. A social democracy in South Africa would give priority to exactly those types of social welfare and investment expenditure which were high on the agenda when social democratic parties began to have an influence on policies in northern Europe. (In addition, because of the legacy of the apartheid economy, more radical measures – some of which are referred to below – will need to be considered.)

A third set of objections from the right has to do with the general contention that social democracies, although they show a great concern for market failures, ignore the consequences of government failures. More specifically, it is argued that the *high level of taxes* needed to finance social democratic expenditures present a *formidable disincentive* to engage in economic activity; that *private enterprises* are far *more efficient than state-run enterprises* and, more generally, that the share of the *government* in the economy is, under social democracies, reaching a level where it *smothers all economic activity inter alia* because the private sector is crowded out of the financial markets.

Recent adjustments and modifications in the policies of social democratic parties indicate that social democratic governments accept that these points of criticism have some validity.

With regard to the higher marginal tax rates, social democrats have often taken their cue from the arguments expressed by Keynes in a famous passage in his *General Theory:*

> For my own part, I believe that there is social and psychological justification for significant inequalities of incomes and wealth, but not for such large disparities as exist today. There are valuable human activities which require the motive of money-making and the environment of private wealth-ownership for their full fruition . . . But it is not necessary for the stimulation of these activities and the satisfaction of these proclivities that the game should be played for such high stakes as at present. Much lower stakes will serve the purpose equally well, as soon as the players are accustomed to them (Keynes, 1936, p. 376).

The basic premise that the stakes for the higher income groups can be substantially lower than they would be under a free marketeer regime without there being any significant disincentive on work, is accepted by all social democrats. It is the basis of progressive income tax policies all over the world. On the basis of experience in social democratic countries, it is today, however, increasingly admitted that marginal tax rates should not be much higher than 50 per cent. Marginal income tax rates of 80 per cent or even 90 per cent can clearly become significant disincentives. Rates of this magnitude also encourage large-scale tax avoidance and evasion, as bitter experience has taught some of the social democratic regimes. In recent years marginal income tax rates have thus been brought down. Social democratic countries have, however, continued to exploit other avenues of redistribution, such as higher inheritance taxes and progressive rates on property, which do not have the same marked negative consequences as do high marginal rates of taxation on income.

The validity of some of the arguments in favour of privatization has also been accepted by most social democratic parties, and some social democratic governments have themselves had vigorous privatization programmes, but only in those areas where privatization seemed to be in the interest of all. At the same time, there is still a strong conviction among social democrats that many activities can be handled more efficiently by governments than by private enterprise. The centralized pension scheme in the Scandinavian countries can, for example, be shown to be far more cost-effective than the multitude of individual pension schemes one finds in South Africa. In some instances there is a strong case in favour of a mix of privately owned and state or co-operatively owned enterprises. The co-operatively owned supermarkets and the government-owned postal bank in Sweden are, social democrats admit, more efficient because they face private competition. At the same time their participation in the market prevents the formation of cartels (at a high cost for the consumer) by the big oligopolies that dominate these sectors. On the basis of the experience of the social democratic countries, one can thus reject the dogmatic assertion of the free marketeers that all state-owned enterprise ought to be privatized.

Both right-wing and left-wing critics of social democracies have argued that the share of government in the gross national product has reached a level at which economic growth is being seriously undermined. In the early 1970s, left-wing critics of social democratic systems argued that there was no remedy to the fiscal crisis – short of an overthrow of the capitalist system. They argued that social democracy bought legitimacy for capitalism by the welfare state measures, but with government spending amounting to virtually 60 per cent of the net national product in the case of some countries, this process could be taken no further. It was economically impossible to further tax capital, and politically impossible to roll back the welfare state.

During the subsequent decade some social democratic governments seemed to have succeeded where their radical critics predicted that they would fail. The Australian Labour Party strongly embraced privatization to roll back the state. The Swedish economy was given a respite by the labour unions acquiescing, as noted, in a stagnant and even falling real wage. The success of some social democratic governments in reducing the role of the state confounded the predictions of left-wing critics, but was oil on the fire of the right-wing faith that the role of the government must be drastically limited.

In response to the general argument in favour of limited government, social democrats again argue in favour of a Middle Way. Social democratic parties world-wide accept that there is a real danger of destroying the economy by over-extending the role of the state. On the other hand, the conservative contention that the share of the state should not exceed one quarter of the national income, is rejected as having no scientific foundation. After all, many social democratic countries have shown sustainable high rates of growth, even though the government's share in income has often been more than 50 per cent (see Wilson's chapter).

There is clearly no simple correlation between the share of national income directed to government expenditure and the growth rate. The efficiency of a country's civil service, and the type of expenditure undertaken, are factors of far greater importance than the actual level of expenditure (for example, expenditure on imported military hardware is very unlikely to have the same economic returns as expenditure on basic health, primary education and a better transport system). To place absolute ceilings on the share which the government may have in the economy, as the free marketeers are proposing, is to deny the government the role of redressing past injustices and dealing with the large-scale problems of poverty in South Africa. Political stability and economic growth require that 'human capital' investments be made in the interest of those who have for so long been excluded from the benefits of the economy.

A right-wing argument against social democracies (often also made in somewhat different language by Marxists who wish to justify the undemocratic nature of socialist regimes) is the following:

> . . . where in the world have you seen a country making a successful industrial take-off under a system of complete voting equality. It most certainly did not happen in Germany or Japan. Nor did England or the United States have equality of vote during industrial take-off. For if all have the same say during such a period, they devour all the products of the society and no savings can be effected to ensure industrial growth (Rupert, 1962).

This argument, which has also been put forward by Lord Bevan and others (Myrdal, 1957, p. 46), might under certain circumstances have had some validity. Particularly in the early stages of development, authoritarian regimes have at times been able to mobilize a surplus for reinvestment which might not have been possible under a democracy. However, under the present circumstances in South Africa, as Dr Rupert himself seems to accept, the lack of political participation by the great majority of South Africans has become a serious obstacle to growth. The political instability and international pressures on South Africa will not abate until democracy has been extended to all. For the same reasons, the inward industrialization strategy will have little success, even though it is economically more progressive than the free marketeer strategy. The denial of democracy, where it is a goal to which many of those who are excluded are committed, undermines the effective functioning of the economic system.

General arguments that social democracy cannot work, or cannot work in a country which is not fully developed, ignore the historic evidence. On the other hand, arguments by free marketeers which point out failures in government have, in those instances where they have clearly had validity, been taken seriously by social democrats. As a consequence the social democracies are today far less centralist than intended even only a couple of decades ago.

The radical critique of social democracy

During the 1970s and early 1980s predictions of the imminent collapse of welfare states were rife amongst left-wing critics of the Middle Way. It is indeed ironic that the 1980s turned out to be the age of the crisis for traditional socialism. However this does not mean that the radical criticism of social democracy can be disposed of simply by arguing that the socialist countries have not been doing well.

Three types of criticism have been levelled at social democratic systems from within Marxist circles. The first has to do with the contention that the social democracies cannot successfully realize the goals they have set for themselves. The second is based on the claim that social democracies are statist and undemocratic, and the third accuses social democrats of masking reality from the workers so that they do not perceive the injustices of welfare capitalism and the truths of Marxism.

The social democratic claim that their system is the *most efficient in eliminating domination and exploitation* is contested by Marxist critics. The prediction that social democracies would be destroyed by the fiscal crisis has already been dealt with. Clearly it did not come true. However, social democrats dealt with the crisis by reversing trends which had become well established over years. In some instances the share of wages in national income had to be diminished; enterprises under control of the state were privatized; the long-term trend of steady per capita increases in state expenditure on welfare had to be reversed. The fiscal crisis was overcome, but in the process the hope of left-wing social democrats, that the slow evolutionary march forward would in the end still lead to full scale socialization of the means of production, has taken a severe knock.

Marxists could respond by pointing out that the social democracies have survived the fiscal crisis only by sacrificing the socialist ideal of eliminating capitalist exploitation. And this is clearly the case if one defines exploitation and domination in nineteenth century Marxist terms, for Marxist exploitation continues to exist when one has private ownership of the means of production. However, for social democrats the concern is not whether a surplus accrues to private owners of the means of production or not, but whether the workers' standard of living improves and whether their control over their working conditions is enhanced.

The problems social democrats have with the Marxist conception of exploitation, power and domination are similar to those raised by Anthony Giddens (1979, 1981, 1985) in his monumental attempt to develop a synthesis of the valid insights of the various social theoretical traditions.

Exploitation is a concept which, according to the position adopted by social democrats, should have a more encompassing notion than is to be found in Marxist analysis. Exploitation is domination,[5] both in the political and in the economic spheres, that is harnessed to sectional interests. Indeed, as Ingmar Carlson also argued at the Socialist International referred to earlier, flagrant domination of one group by others continues in the communist countries in spite of the nationalization of the means of production. Furthermore, history has shown that economic exploitation has less to do with who owns the means of production than with who controls the allocation of the surplus. From their understanding of exploitation and domination, it follows that the extension of bourgeois democracy, rather than its elimination, should be given a high priority. Hence the high premium social democrats place on a pluralist democracy.

The social democrats do not only contest the Marxist conviction that domination is exclusively a question of class domination. They also reject the Marxist conception of the struggle for power as a zero sum game. For example, in the economic sphere a successful compromise between the different classes can result in the economic power of all groups being enhanced. Economic growth can be to the benefit of both the capitalist and the workers. The old Marxist faith that the eventual immiserization of the workers is inevitable, is rejected as being in conflict with the history of the social democracies and as a vulgar functionalist hypothesis.

As a consequence of these differences, social democrats claim as victories adjustments in the system which Marxists would scorn as temporary gains or as co-option strategies of the capitalist classes. For example, for social democrats there is significant progress if workers are able to influence most of the major decisions a company takes and even veto those with which they cannot agree; and if their wages continue to increase, even if the rate of exploitation (in Marxist terms) simultaneously increases.[6]

The social democratic concepts of power, domination and exploitation are virtually identical to those of the new generation of sophisticated post-Marxist, post-Weberian social theorists. Marxist accusations that social democrats in fact perpetuate capitalist domination and exploitation only make sense if one accepts the nineteenth century Marxists' definitions of these concepts. The theoretical foundation on which old-style Marxism is built, is crumbling away. In the process the pragmatism of social democrats is, *ex post facto,* acquiring a great theoretical coherence. In practice social democrats developed an understanding of exploitation, power and domination which, though scorned by the Marxist purists, is now acquiring a theoretical rigour and dominance in the social sciences.

Whereas Marxists usually criticize social democracies for failing to bring economic exploitation to an end, Nicos Poulantzas (1983, p. 601) accused social democracies of weakness in the very area where they are usually regarded to be the strongest:

> . . . social democracy and Stalinism . . . exhibit a fundamental complicity: both are marked by *statism* and profound distrust of mass initiatives, in short by suspicion of democratic demands.

If one reads this accusation to imply that the suspicion of popular demands in social democracies runs as deeply as it does in a Stalinist country, one cannot but respond to Poulantzas with a certain degree of incredulity. Social democracies have, whatever their shortcomings might be, shown a healthy respect for democratic procedures. However, Poulantzas does have a point (as do libertarian critics of social democracies) when he accuses social democracies of statism. The system of proportional representation prevalent in most social democratic countries, together with the significant influence of trade unions on wages, conditions of work and types of investments undertaken by the business sector, do indeed ensure that a far broader spectrum of people are involved in the making of decisions than is the case in many other democracies. However, particularly in those countries where social democratic parties have been in control for long periods of time, social democrats have implemented programmes and policies against the wishes of the majority, in the confidence that, when election comes, they will again be able to muster the support of the majority of voters.

The inability of the electorate to have a significant influence on those decisions not likely to influence the loyalty of the electorate at the next election, can only be overcome by the Swiss system of referendums and initiatives, for this enables them to challenge decisions of the government. A decentralization of power to local government is another precondition if the people rather than the state are to dominate. Statism is always a danger when government is not directly responsible to the people. In social democratic countries there is usually a fair degree of decentralization of decision-making to local governments, but social democratic parties have shied away from the referendum system which, in the final instance, places power in the hands of the people themselves. Although it is clearly absurd to lump them together with the Stalinists, social democracies are, in this respect, more statist than they ought to be in terms of their own ideals and goals.

A third line of attack from the left is to accuse social democracy of creating a false consciousness amongst the working classes.

> The working class does not create spontaneous Marxism in the same manner which it spontaneously creates various forms of defence organization against capitalistic exploitation. The need for such organisation is, so to speak, easily perceived. Such is not the case with the basic Marxist thruths (Johnsson *et al.*, 1979, p. 42).

The workers do not realize that their perception is limited, for, as Johnsson and his co-authors admit: 'The social democratic policy works, it gives results, obvious and concrete in separate instances . . . ' (ibid., p. 43). But, of course, from a Marxist perspective, this apparent success is misleading. Workers accept the social democratic compromise and fail to discover Marxist truths. For Johnsson the situation can be rectified by theoretical work. Other Marxists use these types of arguments to justify the need for a socialist revolution. It is argued that the false consciousness of workers can only be destroyed by creating a different socialist reality.

The practical experience of social democratic countries as regards this type of argument clearly counts for nought. However, can the same be said for the experience of workers in existing socialist countries? Do the workers of Poland still need to discover Marxist truths? Johnsson's contention that the workers will fail to discover these truths is blatantly elitist. In most social democratic countries there are active Communist Parties, often with representation in parliament, and workers have been thoroughly exposed to the traditional Marxist perception of social reality. Marxism in these countries has been rejected for the very reason that workers are familiar with Marxist dogma and practice. They are not ignorant of the position of workers in the existing socialist countries (see Scharpf, 1979, p. 43).

Ideology does play a role when dominant groups justify their postion. In the case of social democracies, the arguments opposing democratic reforms which will enable the electorate to launch initiatives or veto govermental decisions, can be shown to be of an ideological nature. But to reject the social democratic compromise as ideological, and to assume that the Marxist 'thruths', which have served to justify the totalitarian rule of most communist regimes are not ideological, is to refuse to apply valid Marxist insights to Marxist theories.

Social democrats remain committed to socialist ideals: equality, the elimination of economic and political domination, the eradication of capitalist exploitation. In terms of the outcome of the process, a social democracy can justifiably be termed 'socialist'. If, however, systems are classified according to the mode of production rather than the economic outcome, social democracies may justifiably be branded 'capitalist', even though of a very reformed variety.

The radical critique of social democracies, as they have emerged, is not convincing. Undoubtedly, the accusation that social democracies are statist – an accusation which has also been levied by the right – does have some validity. Marxists are also correct when they argue that social democracies have reformed capitalism rather than destroyed it. But to contend that these reforms have not eliminated most forms of economic exploitation, and to deny that both economic and political power has been spread more equally and with much greater benefit to the ordinary worker in the social democracies than in any other system, is to be blinded by outdated, theoretical nineteenth century concepts. It is to deny that the very ideals which Marxism planted in the hearts of the social democrats have been largely realized.

The case for a South African social democracy

This chapter argues that a South African version of social democracy is the only system that has the potential to deal efficiently with the economic crisis faced by South Africa. It does not contend that a social democracy will invariably be the only workable economic system: given different historical circumstances, the economic priorities of many groups and classes may well be better satisfied by other economic systems. But under present conditions both those who in the long term wish to see a free marketeer system and those who favour a truly socialist South Africa, could with integrity support a social democracy as a short to medium-term solution.

The nature of the political and economic crisis confronting South Africa today is such that only a social democracy could come to grips with the underlying problems. After a decade or two there may be a case for arguing, if one is a free marketeer, the case for a Thatcherite type of counter-revolution, or, should one find oneself on the other end of a spectrum, for a more radical socialist programme.

The balance of forces in South Africa are such that neither side can dictate the economic nature of a settlement. Should the ANC and the Mass Democratic Movement insist that a settlement on the economic front must imply a fairly large-scale nationalization of industry, mining, commerce and agriculture, the white establishment would rather face international sanctions and an increase in the military onslaught, than a negotiated settlement.

A radical socialist solution can of course be implemented if a total victory is gained, but this will only be at the end of a long and drawn-out war waged on both economic and military fronts. At that stage the desruction of the economy would be such that the state may have little choice but to take over much of industry and commerce. The unemployment rate would be so high (50-60 per cent), the housing backlog so immense, malnourishment so rife and public health in such total disarray, that social democratic measures could not hope to meet the aspirations of the people within a reasonable period of time. For these and other reasons discussed elsewhere (le Roux, 1988, pp. 217-18), an old-style socialist system is most likely to emerge if we are to wait for the day that the white political and business establishments no longer have the power to put forward minimum demands for a settlement. Those whites willing to fight to the bitter end because they fear a one-party Marxist state, will be creating the conditions under which such a state is most likely to emerge. As Giddens (1979) has argued so persuasively, we create our own future, but not with the consequences we intend.

The argument that a traditional socialist type of economy, or a mixed economy with a strong bias towards traditional socialism, would be opposed to the bitter end, applies *mutatis mutandis* to a free market economy in which the government would play a limited role. A settlement on the condition that there is a constitutional guarantee that government expenditure may not exceed 25 per cent, would not be acceptable. For black South Africans apartheid is a system both of political and economic domination. They want to end political domination in order to bring an end to economic domination as well. They would rather fight a long and drawn-out battle than accept any preconditions which deny them the right to redress economic injustices rapidly.

If there is to be a settlement soon, it will have to be along social democratic lines. History has taught us this system can radically limit both economic and political exploitation and domination, and at the same time maintain a high rate of economic growth. Although capitalists would for obvious reasons prefer a free market economy in which their position was much more dominant, they could live with this type of compromise. It is, therefore, a system which is likely to meet the minimum aspirations of all concerned.

Clearly a social democracy would broadly be modelled on the existing social democracies. But it would be foolish to attempt to predict its exact nature, for a social democracy is not a clearly defined system. It would emerge from the process of negotiations before and after liberation. A South African social democracy would be likely to resemble to its European predecessors in many respects. For example, during the initial phases social investment would be concentrated in areas of high return such as education, primary health care and basic housing. Although some of these investments could possibly be financed by savings made as a result of dismantling apartheid structures, there would also be a need for additional finance. As in the case of other social democracies, this would be found by imposing capital gains taxes, higher inheritance taxes, and other taxes on wealth. Care would, however, have to be taken no to raise taxation to a level where it could undermine the growth potential of the economy, for much of the required redistribution would have to take place out of growth.

In some respects, a South African social democracy is likely to be more radical than the established social democracies. Firstly, given the great degree of political conscientization which has taken place during the past decade, direct access to political power via a referendum system allowing for popular initiatives and vetoes could well be part of this system. Secondly, given the history of injustices, certain measures of retribution may take place particularly with regard to the land issue. Demands that the land of absentee landlords be redistributed to black farmers and co-operatives may well be implemented, and financial awards may be paid to those who were removed under the Group Areas Act from prime land.

Although a S. African social democracy may seem to be far too radical from the perspective of many of those who find themselves in the white establishment, and far too conservative from the perspective of the Marxist revolutionary, there is little doubt that it would be a system which could function to the benefit of all. If S. Africa were to again achieve an annual average GNP growth rate of above 5 per cent, and taxes were so structured that approximately 1 per cent of this rate of growth benefited the (mostly white) middle classes (some growth in income being necessary in order to stem the emigration of skilled workers), then the income of the (mostly black) poor, who presently receive only one-third of national income, could grow at an average rate in excess of 10 per cent per annum. Direct food subsidies, nutrition clinics, etc. could furthermore target support to those whose position was so desperate that a 10 per cent per annum increase would not suffice to meet basic needs. Clearly those at the bottom of the ladder would benefit more dramatically than those at the top. But virtually all[7] would benefit relative to what their position would be if there were an extended siege economy followed by a radical socialist system.

It cannot be assumed that South Africa would necessarily grow at the average annual rate of 5 per cent or more (which is required if the social democratic compromise is to work). Certain conditions would have to be met. *Inter alia,* an important precondition to settlement should be a firm commitment to specific types of support from the international community, for example, the rescheduling of some and the writing off of other portions of South Africa's international debt, and the preferential access of her agricultural products to the European Community Market. After settlement there will be little interest in South Africa, and very little of the expected international support will materialize. Furthermore, the level of growth rate needed will only be realized if those within South African trade unions who are presently nurtured on a radical socialist faith, are willing and able to play the constructive role required of them in a social democratic regime. Finally, if the business community does not truly commit itself to this type of compromise, and continues with its large scale disinvestment, it will not be possible for South Africa to realize her economic potential, and the social democratic compromise could fall to pieces.

It is unlikely that a social democracy will be implemented in South Africa under present circumstances. White South Africans are often the captives of their own racist or capitalist ideologies. They either believe that a democracy in an African context could not work, or that no system but a free marketeer version of capitalism could overcome South Africa's economic problems. However, given that the choice available to them is either a siege economy or a social democratic compromise, it is clear that an increasing number of whites are willing to consider a social democracy. Indeed, if a social democratic compromise should unambigously be offered to them, they may well opt for it, given the international pressures for a settlement.

On the other hand, given the very significant role the Com-

munist Party has played in the resistance movements, it is not surprising that most of the Marxist objections to a social democracy raised in this chapter are prevalent in resistance circles. However, partly as a consequence of what is happening in the Soviet Union, perceptions within the ANC and the Communist Party have been changing and consequently it is difficult to predict what the feelings of the majority of the ANC executive would be, although it is likely that a social democratic compromise, if sincerely offered, would be acceptable to the broad masses. The ANC executive may however find it virtually impossible to take the initiative and suggest this type of settlement, for, should it be rejected, the more radical opposition to the left of the ANC would be able to gain support at the expense of what is today undoubtedly the dominant resistance movement.

Conclusion

The majority of South Africans may potentially be willing to accept a social democracy, even if only reluctantly and as a second choice, but the political dynamics of the situation are such that it is not likely that this compromise will be reached. Whites fear a settlement, because they believe it will be on more radical terms. The liberation movements, on the other hand, find it difficult to offer these moderate terms, even though they may well be acceptable to the masses, for fear that they will lose support to those with more radical objectives if their offer should not be accepted.

Although the political obstacles to an accord being reached cannot be overcome by academic discussions, work which challenges the certainties of opponents of a social democracy may remove some of the ideological obstacles to a potential settlement. Hence this attempt to question the conventional wisdom of those to the left and to the right. The calculated risk of opting for a social democracy is greatly to be preferred to the economic and human costs of a siege economy. Only those on the right and the left who subscribe to the dogmatic certainties of naïve nineteenth century social theories can reject this conclusion.

Jill Nattrass argued in the conclusion to her book, *The South African Economy, its Growth and Change* (1981, p. 344):

> The challenge to South Africans will be to make this solution work, to face up to the tough compromises that will have to be made by all parties and to plot a course that can be navigated between the Scylla of dictatorship and the Charybdis of revolution.
>
> The question is whether we will be able to meet this challenge after liberation.

Notes

1. I first put forward some of the economic arguments for this type of system at the 1982 conference of the Economic Society of South Africa (le Roux, 1981) after having read Jill Nattrass' arguments in favour of what she called the social democratic reform option as opposed to National Party reform (Nattrass, 1981, pp. 339-43). See also the HSRC report (Godsell & le Roux, 1986) for arguments in favour of a participating economy which in fact amounted to a version of social democracy. Jill was a member of this committee. Her sharp intellect and strong commitment to honesty and rigour in academic research brought qualities to the intellectual debate which are far too seldom found. I dedicate this chapter to her memory.
2. Sweden and the other Scandinavian countries are the classical examples of social democraties. Holland, Belgium and Austria have also had long periods under social democratic governments. Even in Germany, where the social democrats have been in opposition more than in government, social democrats have had a very significant impact on policy. Canada, New Zealand and Australia, and a number of other countries could also, with some qualifications, be added to this list. In many respects Britain is atypical, *inter alia* because the trade unions were often of a very undemocratic nature. Indications are that Kinnock's Labour Party is moving closer to the social democratic tradition.
3. My own translation from Swedish.
4. The reader who still believes in old style socialism, is referred to the introductory chapters of *Perestroika* (Gorbachev, 1987) and to Alex Novec's scholarly *The Economics of Feasible Socialism* (1983).
5. Domination can, according to Giddens (1981, p. 60), take place in both the economic and the political sphere, and there can be domination both over human beings and over nature. Although an increasing number of social democrats share Giddens's ecological concern, the focus in most social democratic analysis remains on domination over human beings.
6. Given the fact that high and rising real wages usually call for increasing capital intensity, this usually means that the rate of exploitation in Marxist terms is higher in companies and in countries that pay higher wages. Conversely, given very reasonable assumptions regarding capital intensity (the organic composition of capital), the Marxist rate of exploitation is usually low in a country which is underdeveloped or in a company which pays low wages.
7. Clearly the social democratic compromise is not in the interest of the establishment politician who wishes to cling to power for another decade or two; nor is it in the interest of the radical politician who hopes to obtain the type of totalitarian powers a radical socialist regime would entail.

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Nationalisation of South African agricultural land: Prospects and difficulties†

1. Introduction

The World Bank (1974), in a sector policy paper, has identified six main agricultural tenurial systems:

- the Asian Feudal system (estates worked by small sharecroppers);
- the Latin American Feudal system (large estates run by the owners or their managers who employ hired labour, sometimes sharecrop farmers);
- the traditional African tribal system (the land belongs to the community, which allocates it among the various families);
- the system of individually run farms in market economies (which is based on individual ownership);
- the socialist system, in which the land belongs to the State and is allocated in accordance with the goals set out in a plan; and
- the ranch and plantation system (managers and salaried staff).

In South Africa we have almost all of these tenurial systems with individual ownership dominating in the commercial sector[1] and traditional African tribal system and state-corporate farming dominating in homeland agriculture.[2]

In Section 2 of this paper the existing structural imbalances in our agricultural sector are discussed together with some aproaches of agricultural policy to solve structural problems.

In Section 3 a framework of analysis of man's use of land is presented.

Section 4 is an attempt to find a way for equitable growth with some examples of affirmative action programmes. Section 5 discusses some strategies for growth with equity.

Section 6 discusses criteria to be followed when planning a land reform or nationalisation programme. In conclusion the paper gives some strategy choices.

2. Structural imbalances in South African agriculture

Structural imbalances in an economy can be defined as a non-Pareto allocation of resources (McCarthy, 1988). With regard to agriculture, such imbalances may involve a less than optimal resource allocation between agriculture and the rest of the economy, and between subsectors of the agricultural economy, with resultant symptoms of inefficiency and inequality.

It is recognized that a major source of injustice in the South African economy is the inequitable distribution of land, inputs and product markets. In old times (and still today in traditional systems) farming and agriculture were regarded as synonymous. Within a modern agricultural sector farming (agricultural production) is only one of a series of functional components. The other components determining the success of the acricultural sector are as follows:

- commercial activities supporting agriculture e.g. the manufacture and distribution of agricultural requirements, marketing and processing services, credit and financing services. The farmer himself has to pay for these whether or not they are supplied by private or public organizations;
- non-commercial activities supporting agriculture e.g. agricultural research, information services, education and training. Farmers usually pay indirectly (income tax) for these services;
- the agri-milieu, which is a combination of all the influences affecting agricultural activities in general. Some of these are of an economic nature, namely:
  * the level of development of the inland industrial sector and the related demand for farm produce;
  * the level of non-agricultural employment opportunities;
  * price and tax policy;
  * foreign trade opportunities;
  * inland distribution of income;
  * physical infrastructure; and
  * the population growth rate.

  Another very important section of the agri-milieu consists of and is influenced by political factors, namely:
  * land tenure policy;
  * general development policy;
  * agricultural development policy; and
  * the extent to which farmers take part in political processes.

  Other aspects of the agri-milieu are of a cultural nature:
  * traditions and values of the people;
  * community structure; and
  * standard of general education and training.

This is thus a complex environment and the situation in South Africa is further complicated by the dualistic environment of agricultural production (Fényes *et al* 1988). The role and contribution of the agricultural sector are essentially derived from income and employment effects throughout the economy. In this respect it is important to realise that these linkages and multipliers give the agricultural sector a far wider impact on the economy than through direct effects alone. For example, the contribution of the agricultural sector to the GDP is at present 5,3%, with 13,6% of economically active people directly employed in agriculture. The total impact of the agricultural sector on the economy is, however, measured as 12,8% of GDP and 24,4% employed (Van Zyl and Van Rooyen, 1990). The white farming sector, which is capital intensive, commercially orientated and produces a surplus, exists alongside small-scale, subsistence-orientated black farming in the homelands. The performance levels, cost structures and levels of activity of these "two agricultures" differ considerably. For example, white commercial farming produced an output of R1 298 per man (R119/ha cultivated) in comparison to R65 per man (R34/ha cultivated for black smallholder agriculture). Although each sector "employs" roughly the same number of people, the commercial sector's area cultivated covers about six times the land under developing farming (Cobbett, 1987) and the output per commercial worker is more than twenty times the output of a smallholder. In spite of substantial increases in production levels, mainly through project investment in developing agriculture, indications are still that the production gap between smallholder and commercial agriculture has been widening consistently while at the same time the black population has increased at a rate of 3,1% per annum. Consequently black rural areas have become increasingly dependent on food imports from the commercial sector. An assessment of the prevail-

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ing situation in South Africa's "two agricultures" highlights the different milieu in which each operates. The commercial farming sector generally operates under farm business principles, encouraging commercial production, while comprehensively supported by specialized private sector service institutions and organisations such as the Land and Agricultural Bank of SA, Agricultural Marketing Boards, the co-operative movement, research institutions and a strong political lobby in "Organised Agriculture".

Government support through subsidies, tax concessions and protection of this sector is also of long standing, although indications are that some of these measures are on the way out (Van Rooyen 1989, Fényes *et al* 1988b, Lamont 1990).

Agriculture and especially smallholder farming in developing areas, however, operates largely outside this comprehensive structure of institutional support, with restricted access to support services and opportunities for African farmers to compete in agricultural markets. Access is further limited by legal restrictions along racial lines to entry into the wider South African land market which also does not exist in traditional agriculture (Fényes *et al* 1986).

On average, the financial position of commercial farmers would appear to be satisfactory. Averages, however, disguise the skewness of the distribution of income and welfare in this sector, Fényes *et al* (1988a) show that:

- 70 per cent (41 362) of the estimated 59 008 commercial farmers in 1985 contributed only 25 per cent of the gross farm income with a mean gross farm income of R58 000 per farm unit;
- 50 per cent (29 544) contributed only 10 per cent, with a mean contribution of R32 700 per farm unit; and
- 30 per cent (17 700) of the farmers contributed only 3,5 per cent of total gross farm income, an average contribution of less than R20 000 per farmer.

On the upper end in 1983 it was found that: (SALU 1983)

- 0,9 per cent of the farmers contributed 15,9 per cent of the total gross farm income;
- 5,8 per cent of the farmers contributed 38 per cent; and
- 27,5 per cent of the farmers were responsible for 73,8 per cent of gross farm income.

It was further found that the same skew distribution applies to assets and total farm debt.

The tendency towards growing concentration of wealth in the hands of a smaller number of farmers and a relatively skewed distribution of income is typical not only of this sector but is also evident in the subsistance sector (Vink, 1986; Van Zyl & Coetzee 1990). To correct these structural imbalances and to achieve efficiency and equity, resources in the agricultural economy should be allocated to their most productive uses and be in the hands of the most productive users.

The structural imbalances in South African agriculture are manifested in symptoms of inefficiency and inequality. This in turn reflects back to the cause of such symptoms, namely inequitable access to resources, inputs and product markets. A primary cause of inequitable access is the existng distribution of rights to land in accordance with the Black Land Act (Act no 27 of 1913) and the Development Trust and Land Act (Act no 18 of 1936). The most immediate effect of this legislation is unequal access to land as a factor of production as between farmers of different race groups and between sectors in agriculture. As a result, land is not allocated to its best uses and users. The repeal of current legislation and some form of affirmative action is thus necessary to maintain production levels and at the same time achieve a better distribution of opportunity.

Within this scenario the basic agricultural policy of the government will determine the tools of affirmative action which can be applied. The objectives of agricultural policy will depend on one of the following five approaches to problem solving in agriculture:

(i) The free market in agricultural production

In the free market approach the forces of demand and supply determine prices as well as allocating and rationing available supplies. This approach normally places a high value on the role of profits, private enterprise, initiative and hard work; little confidence is placed in the ability of government to solve or even ameliorate problems.

(ii) The production stimulator

The production stimulator believes the major agricultural problem is to feed adequately the ever-expanding population. Government's role in this context is to provide the basis for increased production through substantially expanded agricultural research and education, production incentives, etc.

(iii) The agricultural fundamentalists

The basic tenets of this approach are:

- agriculture is the basic occupation of humankind;
- rural life is morally superior to urban life;
- a nation of small independent farmers is the proper basis for a democratic society;
- farming is not only a business but a way of life;
- the land should be owned by the person who tills it;
- anyone who wants to farm should be able to do so.

The basic policy prescription of the fundamentalists is government establishment of price floors for agricultural commodities at parity levels.

(iv) The stabilizer

The stabilization approach holds that the major problem in agriculture is instability. Instability undermines the family farm structure, results in errors in production and marketing decisions and fosters inflation. Government policy on the stabilizer should ensure that farm prices move over a relatively narrow range and that supplies are always available.

(v) The planner

The planner believes that the market-place cannot alone be relied on to influence decisions on food consumption and production. The market is too unstable and its participants are too slow to adjust. The result is chronic problems ranging from consumers not eating a nutritious diet to producers not producing the right quantities. Policy prescriptions include government identification of the nutritional needs of consumers, educational programmes and the supplementing of income to influence what is consumed and production incentives consistent with the needs of consumers.

All these approaches to problem solving are interrelated and must always be kept in mind, especially when drastic changes in the agrarian structure, namely the creation of a multi-racial agricultural sector, are envisaged.

A scientific assessment of proposed land policies and practices is necessary regardless of the political philosophy of the government as reflected by these approaches. According to Southhall (1990), for all that the approach to agrarian issues by political movements such as Inkatha, Azapo and the ANC can be variously described as conservative, socialist or state interventionist, there is virtually nothing in their ideas to suggest they have as yet paid any systematic attention to how their social and economic policies would be related to a transformation of rural political structures.

3. Framework of analysis

Man's use of land (and real estate) resources takes place within a threefold framework. This framework involves the impacts that physical and biological factors, economic considerations, and institutional arrangements have on private and public decisions relative to land use. Together, these three sets of factors set the limits that individuals, groups and governments can accomplish with any given level of technology in their development, utilization, and conservation of land resources.

Briefly stated, the physical and biological framework is concerned with the natural environment in which man finds himself and with the nature and characteristics of the various resources with which he must work. The physical and biological factors involved center on the need for maintaining sound ecological relationships over time.

To be successful, policies on the use of resources must be physically and biologically sound both in the short and in the long run. Tempting as the prospect of short-run benefits from some types of exploitation of resources may appear, society must oppose those actions that destroy fragile and nonreplacable resources or seriously disrupt normal ecological processes. (See, for example, Cowling, 1990.)

The economic framework is concerned with the operation of the price system as it affects each individual in his attempt to make profitable use of his land-resource base.

The institutional framework is concerned with the role man's cultural environment and the forces of social and collective action play in influencing his behaviour as an individual and as a member of his family, his various groups and his community. To be workable, programmes and policies of land use must pass the test of institutional acceptability.

The various elements of this three-fold framework within which land policies and practices could be evaluated are given below.

Physical and Biological Practicability

- suitable physical resources – geology, soils, water, air, climate;
- appropriate plant, animal and other biological resources;
- people and human communities;
- operations that accord with sound ecological principles.

Economic feasibility

- productive input-output relationships;
- effective marketing and transportation arrangements;
- acceptable distribution of income and benefits;
- budgetary implications.

Institutional acceptability

Policies and programmes must be:

- legal – comply with constitutions, laws, ordinances and public regulations;
- politically acceptable – not in conflict with cultural and social mores or widely-held attitudes or beliefs;
- administratively workable.

4. A search for equitable growth

4.1 Equity versus growth

A major theme in the discussion of the ethical aspects of economic systems is the conflict between equality or 'justice' in the distribution of income and the stimulation of economic growth. Two basic points should be made in this regard. *First,* there is no economic reason why growth should produce more equality of wealth and income distribution. *Second,* egalitarian measures may well produce an equality of misery.

To be consistent with the principles of individual freedom and personal responsibility as well as efficient economic organization (which includes both a bureaucratic centralized economic system as well as a competitive enterprise system) policy should concentrate on providing equality of *opportunity* rather than equality of measured *ex post* results.

In this regard, access to opportunity via resources implies more than the usually measured assets such as land and capital. It also includes the provision of goods by means of public capital in which citizens have property rights by virtue of common citizenship or residence. Both the provision of consumption goods by public production (e.g. extension, research, drought relief) and the provision of such goods by public capital investments (physical and institutional infrastructure) should be counted as an asset in an individual's net worth. Equitable access to resources should include access to these public goods. In this sense it is important to focus on the distributional impact of policy strategies and instruments rather than on the growth effects of exogenously imposed redistribution.

4.2 The Agricultural Environment

A number of examples of affirmative action for the South African situation include:

(i) Equitable access to commercial, agri-support activities, i.e. those services for which the farmer pays directly. Examples include full membership of cooperatives; access to the controlled marketing system and specialized financing and credit institutions such as the Land Bank and the Agricultural Credit Board; equal treatment with regard to subsidies, drought relief schemes, etc.

(ii) Equitable access to non-commercial agri-support activities, i.e. those services for which farmers do not pay directly. This includes access to research, extension, training, information and advisory services.

(iii) An agri-milieu, consisting of political, social and economic institutions, which does not discriminate between participants. This is discussed in more detail below.

4.3 The external environment

In the South African context it would seem that the problems posed by the external environment are the most intractable as they imply the total integration of all aspects of the agri-milieu in order to ensure equitable access.

The present agricultural structure is supported by laws and institutions geared to serve relatively large scale capital intensive farming operations. It would be unrealistic to assume that new entrants to this farming system can be incorporated on an equal footing without excessive support measures. This argument is valid for all new entrants, without reference to race. The present financial situation and the evidence regarding the depopulation of the platteland prove that access is possible only by patrimony, matrimony or parsimony. Even these avenues are to a large degree closed to prospective black entrants.

There are, however, two important issues in this regard. *First,* not all farmers in the capitalist sector are served to the same degree by this support system. Three exceptions occur, namely market gardeners surrounding the metropolitan areas, part time farmers and the "failures" of the support system. These groups are not excluded from the support system in a formal or legal sense. Access to these functional areas is, however, relatively easier than to more settled farming areas.

The usual pattern of distribution of land size in a capitalist agriculture is for larger, extensive farming operations to be located on the periphery with small farms (market gardening) surrounding the core urban areas. South African agriculture is an exception to the extent that a large proportion of small farmers are located in the outer periphery. There is a great disparity in the provision of support services between the two small farm sectors. Given the relative ease of entry to the market gardening sector, initially via leasing and labour intensive technology, integration of black farmers in this sector can be expected at an early stage. The same basic arguments apply in the case of the part time farming sector.

The third area of relatively easy access seems to be the depopulated farming areas of the Transvaal and Free State, mainly in border regions. Another opportunity lies in the present financial difficulties being experienced by the capitalist farming sector which points to an increasing number of insolvencies. This in turn creates new opportunities, given a willingness to pursue more equitable land distribution policies and to effect a redistribution of land. This will thereby reduce the anticipated future claims on radical land reform or nationalisation.

The terms of access to all these abovementioned areas cannot, however, be left to the market. The constraints posed by the present agri-milieu in particular, should receive systematic attention. To open access to agricultural support institutions as a policy measure on its own will not necessarily allow equitable access and improved welfare positions. In this regard certain positive measures can be taken. These should be instituted over the short and medium term with the purpose of facilitating the removal of initial barriers. These include:

(i) Incentives and active support for farmer settlement programmes on unused and underutilized land;[3]
(ii) Special credit arrangements;
(iii) Subsidization of basic infrastructure, including irrigation development, roads, training programmes, etc.; and
(iv) Specific operational, training and extension programmes.

These measures should adhere as closely as possible to the principles of private enterprise. In this regard farmers should still be able to make their own decision and to carry risk. This is important to ensure the establishment of a viable agricultural sector.

A basic requirement of any agricultural policy is to maintain sound ecological relationships over time. To be successful, land use policies must be physically and biologically viable. Tempting as the prospect of short term benefits from some types of land resource exploitation may appear, society must oppose those actions that can destroy fragile and nonreplaceable resources or seriously disrupt normal ecological processes.

In this regard the concept of settling black farmers on marginal and submarginal abandoned or underutilized land in view of assumedly lower acceptable income targets must be seriously questioned. Land use should under all circumstances be directed according to comparative advantage and sound ecological principles. Land subdivision based on capital intensive farming principles is not necessarily optimal in this regard.

4.4 The legal environment

For the successful implementation of the positive action mentioned and above the laws which structure the legal environment of farming in South Africa will have to be changed.

Besides the most obvious Acts, such as the Black Land Act of 1913, the Development Trust and the Land Act of 1936, the Separate Amenities Act and the Group Areas Act, a number of other laws will have to be investigated. These include those legal provisions geared to support capitalist agriculture that will not necessarily be suitable for the envisaged new dispensation. They include inter alia:

- The Cooperative Societies Act of 1939
- The Land and Agricultural Bank of South Africa Act of 1944
- Agricultural Research Account Act of 1964
- Agricultural Credit Act of 1966
- Marketing Act of 1968
- Soil Conservation Act of 1969
- Common Pasture Management Act of 1977
- Designated Areas Development Act of 1979
- Conservation of Agricultural Resources Act of 1983
- Proclamations and Government Notices promulgated in term of these Acts
- Various Provincial Ordinances.

It must be emphasized that even if some of these legal provisions are non-racial they need to be investigated and possibly amended with the view to facilitating the envisaged new structure. This new structure may also include different systems of land tenure, small-scale labour intensive production units and features such as the breeding of indigenous stock, intercropping practices, etc.

Another aspect which should be addressed is the nature of the existing system of land tenure in the homelands. If the Land Act as well as the relevant sections of the Black Administration Act of 1927 are scrapped the legal basis of this system of tenure will fall away. Two issues are important in this regard. *First,* the security value of land as a subsistence retreat could lead to pressure for the maintainance of tribal tenure. *Second,* the present homelands occupy a relatively large proportion of arable land in South Africa. This land is at present not utilized to its full potential for a number of reasons. This could in turn lead to pressure to change the current system. These conflicting forces need to be taken into account in deciding on the matter.

Many features that affect distributional patterns are, however, omitted from conventional planning models. Principal amongst these are the following:

(1) the dualistic nature of the agricultural sector;
(2) concentration of the ownership of capital, which is generally more extrme than the concentration of incomes;
(3) differential access of socio-economic groups to employment opportunities and therefore to wage incomes generated in the capitalist sector. These differences may reflect geographical and social barriers to mobility or varitions in education and skills.

It must be noted that the implementation of the redistributional policies is made more difficult as a result of these patterns even in the absence of legislative barriers. There is, however, considerable potential for creating equity through a policy of investment transfers. Such a strategy, although operating at the margin, can achieve substantial improvements in patterns of asset concentration over time. As income in the poorer groups is constrained by lack of access to physical and human capital as well as infrastructure, the reallocation of public resources can provide a powerful mechanism for overcoming these constraints.

5. Strategies for growth with equity

An important conclusion which can be drawn from the above is that an increase in participation is by no means an automatic consequence of economic progress. Mechnisms must be developed that enable these new entrants to enjoy an equitable share in the new dispensation. These mechanisms must be fair enough to be generally acceptable.

The reason why the agri-mileu is important is that the redistribution of assets, if accomplished, is not a sufficient condition for equitable growth. Factors such as poor economic management or excessively slow growth rates in the post-redistribution period can cause a drastic fall in the value of the redistributed assets. Examples include abortive land reforms and enterprise nationalization, such as the collectivization of agriculture in Mozambique and the nationalization of the cocoa industry in Ghana. In the South African situation, given the willingness to exploit available opportunities for the incorporation of black farmers into the new agricultural economy, historical evidence from elsewhere points to two possible extreme stategies:

(1) grow now, redistribute and educate later;
(2) redistribute and educate now, grow later.

It can be argued that South African agriculture has followed the first strategy. Given the current reform initiatives, the second alternative seems more appropriate. We argue, however, that the restructuring of the agricultural economy need not be at the expense of current growth. The realities of the South African situation are such that new entrants can be incorporated in a way that facilitates the restructuring of agriculture without sacrificing growth.

A note of caution is necessary when designing strategies for redistribution and growth. It has been proposed that a new economic theory is needed for studying the economics of getting poorer while redistributing.

In the South African context the envisaged changes may sound drastic. However, in 1926 Lord Keynes identified the political problem of mankind as the combination of three things: economic efficiency, social justice and individual liberty. Any dispassionate view of South Africa must lead to the conclusion that this problem has yet to be solved.

6. Land reform or nationalisation

If and when the government decides that opening up of opportunities and affirmative action should rest on some form of land reform or nationalisation of land the following criteria should be observed:

Land records

The land to be affected by nationalisation must be clearly identifiable. Records on sizes of ownership units in various regions as well as clear demarcations of public lands are useful.

Criteria for acquiring land. Clear and simple criteria are needed to determine exactly what land is subject to acquisition. It is often presumed that size of ownership units is a clear and objective criterion; this usually is not correct for at least two reasons.

First, mere farm size is not the only pertinent factor. Farm size per se has little meaning. It acquires significance when viewed within the context of the community, the productivity of land, infrastructure and services available, the intensity of land use, population pressure, the system of tenure and the social and economic value attached to the ownership of land. Second, there are farm sizes below which a family cannot support itself from the output of the land alone.[4]

Compensation

Ideally, owners of large tracts of land should be encouraged to sell parcels to would-be owner-operators. If land is expropriated a compensation scheme must be established. This may involve a partial cash payment, with the bulk of the compensation in government bonds to be redeemed in future years. Various combinations of bonds and cash (and bonds adjusted for inflation and varying maturities) provide flexibility and can be used to counter some of the opposition to the reform.

Distribution to new owners

When large farms are divided into small family farms, resident labourers are usually given first claim. Previous wage workers who receive small private plots often lack managerial skills and may create production problems for which there is no easy answer. The previous owner or good extention officers can be helpful, but rapid expansion or high-quality extension service in a reform situation is usually difficult.

Hence, in these situations especially, some cooperative arrangement among farmers (whether group farming or some less collective format) should be considered in order to disseminate new skills, ideas and techniques.

Payment by new owners

Payment by new owners should be spread out and sufficient safeguards against crop failure enacted so that the land payments plus taxes and other charges do not exceed the previous levels of rent and so that the payment schedule can be met easily at existing levels of production.

Services

Land redistribution may disrupt a system that already provides credit, fertilizer, technical information and marketing. Both to avoid disruption of services and to ensure that the benefis of reform remain equitably distributed, a new system must be planned as part of the entire reform programme.

7. Strategy choices

No magic formula for implementing land redistribution exists. Production losses occur primarily because of disruption, lack of services, or uncertainty about how the reform will influence future standards of living. A path must be found between the danger of immobility and the danger of social conflict.

The sequence in implementing land redistribution is one strategic decision. The options usually are:

(a) largest, foreign or absentee owners first;
(b) regions of most severe inequality first;
(c) regions of most likely success first;
(d) regions where major crops are least productive.[5]

The advantage of the big-holding-first-strategy is its political impact and its immediate disarming of the most powerful opponents of land reform. The disadvantages include incentives for the large farmers to divide their properties, the complications of politics, and the administrative clumsiness of returning repeatedly to the same region for successive levels of reform.

The advantages of giving initial attention to areas of the most severe inequality include neutralizing potential dissidents and emhasizing the value of social equity. The principal disadvantage is that the areas of great inequality are frequently regions where success is most difficult to achieve. The strategy of pursuing the easiest successes and building administrative knowledge and experience demonstrates what might be done and stimulates peasant enthusiam for the effects. The principal disadvantage is that some of the most visible excesses will be saved for last and opposition can build in those areas that come last.

Proceeding through reform according to crop and the degree of modernization allows productivity considerations to be balanced against equity: modernized sectors can be protected and political opposition can be minimized. The disadvantages include incentive to change crops, a series of administrative ambiguities whenever multiple cropping occurs and the prospect of lack of government concern for equity.

According to Wortman and Cummings, (1978) the final and most amorphous of the strategic political questions concerns the moral and cultural aspects of enthusiasm for land reform and resistance to it: i.e. whether it is possible without radical changes of philosophical perspective, and whether the detailed administrative calculations are relevant when the basic psychology of the country is that of dominator and dominated. But away from moral issues, the cost of nationalisation of agricultural land – the easiest part of the business – certainly will be huge. Yet, as The Economist (1990) reports, the ANC is led from cities, and Marxism's emphasis on the proletariat has reinforced its urban bias. It will be hard to escape from this. If the new President has to face disorder among his own people, he will find, like his white predecessors, that it comes from the people in the urban slums. So he will be tempted to try to please articulate town-dwellers first and let the investment needed to make a success of rural reform take second place. The dilemma again is that if one neglects the country people, they will flock in desperation to town and thereby worsen the situation.

Notes

1. In 1981 the relative contribution of various forms of ownership in the commercial sector was as follows: individuals, 67,6%, partnerships, 9,3%, public companies, 1,9%, private companies, 20,1%, co-operatives, 0,3%, municipalities, 0,2%, government, 0,4% and other 0,3%.
2. Within the homelands there are at least four recognised legal forms of land tenure, viz., freehold, quitrent, communal/customary and "trust tenure". For a discussion of these tenurial forms see for example Davis and Corder, 1990.
3. In this respect, Tessa Marcus (ANC) says that "it is highly contentious to suggest that . . . land is abandoned or unused because whites have ceased to live on or work it . . . this land is often quite heavily populated and worked by black people . . . and even if this land is underutilized, what purpose would it serve to extend African access only to land with the lowest yield" (Marcus, 1989).
4. The target income of the land settlement programme in Zimbabwe is a net farm income of Zim $2 000,00 per annum per farming family. This is clearly below the expectations of our prospective farmers.
5. Another option discussed by Marcus (1990) is the wholesale nationalisation of land. She states that the land may be nationalised, while the ownership of commercial farms remains in the hands of private individuals or companies. The State, as landholders, transforms all landed relations into tenancy relations. It is thereby able, at one and the same time, to gain revenue from rent which can be rechannelled into the social wage for the benefit of all. According to her, even for capitalist producers in agriculture it may well be in their interest at a certain juncture not own the land as land ownership unnecessarily ties up capital which could be more profitably and effectively employed elsewhere.

   In similar vein, De Klerk (1990) discusses nationalisation by means of a land tax. Depending on the rate of taxation this method may result in socialization because by taxing away the entire income from a productive resource by taxation means expropriation without compensation, even though ownership resides with the individual.

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South African gold mines and nationalisation†

1. Introduction

The economic debate, which will probably form an integral part of the forthcoming political negotiation process in South Africa, will no doubt seek to bridge the gap between nationalisation on the one extreme and a free market economy on the other side of the spectrum. The outcome will probably be an agreement on a *'mixed'* economic system, with significant emphasis being placed on income distribution and job creation, ie a so-called *'national interest'* or *'social market'* economy. In the great drive to spread wealth and services to South Africa's growing population in the 1990s, competition for scarce capital resources is bound to intensify and the gold mining industry will have to face the prospect of re-establishing its case for a significant share of the nation's capital resources.

It is also probable that the matters of State ownership and the exploitation of South Africa's natural resources, including gold, will form an important part of the debate on future economic strategy.

Accordingly, this paper seeks to investigate:

Firstly, the gold mining industry's case for utilisation of the nation's scarce capital resources in the development and maintenance of gold mines; and

Secondly, the pro's and con's of the nationalisation of gold mines.

Mining's claim on economic resources

What is the **economic case** for mining industry expansion?

Minerals make up a major portion of South Africa's natural endowment and should be exploited optimally for the benefit of the country.

It could be argued that the fortunate occurrence of a substantial portion of the world's reserves of many minerals in South Africa requires an economic framework tilted towards profitable development of these resources. Indeed, in the past, official development planning, exchange rate policy and fiscal strategy has often showed such a bias. To argue that South Africa is *'mining country'* and therefore requires a suitable distribution of economic resources attesting to this fact might be valid, but such an economic orientation might ignore the claims of other sectors of the economy.

Given the limited domestic consumption of our minerals, it is clear that the export markets do and will provide the main source of demand for our mineral products. Tapping foreign purchasing power, rather than more limited domestic purchasing capabilities, substantially enhances overall wealth creation in the country.

World market demand for our, in many cases, unique mineral products provides a source of foreign capital not otherwise available to the country in the current sanctions environment. The fact that South Africa's exports have tripled since late 1984, ie prior to the introduction of first sanctions measures, which even in real terms constitutes a rise of some 140%, is to a large extent attributable to mining products. In both their raw and beneficiated forms, these make up about 75% of total export earnings.

In large measure mineral exports have been an important *'lifeline'* to the sanctions constrained economy over the past five years. Hopefully, in a nonsanctions environment, this conduit to international markets could be substantially pursued and expanded. Our record of being a reliable, efficient and competitive supplier of export products in a scenario of international censure and boycott might provide us with a racing start on alternative sources of such products in more normal times.

Export earnings help finance the import of both consumer and capital goods, finance and service debt and, to the extent that an *'export surplus'* is generated, contribute to domestic capital formation. Also, in normal circumstances, an export surplus would enhance the nations' borrowing capabilities. For instance, foreign investment is more readily attracted to successful exporting nations.

Given South Africa's abysmally low level of savings, ie a personal savings ratio of 1,5% and the poor level of domestic capital formation, any contribution to capital accumulation from foreign sources is welcome. Mining has traditionally attracted the largest share of foreign investment in South Africa due to its ability to meet international market needs for raw material resources.

Existing and new mines provide substantial employment opportunities, both directly on the mines themselves and through the 'ripple-effects' of infrastructural creation, services and raw materials consumed, etc.

According to the Chamber of Mines, gold mines in 1989 employed an average of 420 000 workers in the semi-skilled and unskilled categories, together with a further 50 000 skilled employees. A Chamber survey indicates that each unskilled worker supports between 7 to 10 people, suggesting that 4 million people are directly benefitting from employment on the mines.

Some 60% of the unskilled labour force comes from South Africa and its internal states, with the other 40% originating from a number of neighbouring territories. Much of this labour is migrant. Notwithstanding the social inequities of such migrant labour systems, there are some valuable *'external economy'* effects generated through the mines' labour system.

One of them is the export of savings to rural areas. Again according to the Chamber of Mines, mine worker savings channelled through the TEBA payments system amounted to R2,2bn in 1989, of which some R708m was paid out in rural areas. This income provides a significant pool of funds in such regions, channelled, for instance, through the pockets of local businessmen, such as traders, farmers and builders.

Furthermore, the trades learned on the mines, such as welding, bricklaying, wiring, pipe laying and mechanical skills become part of the pool of self-help resources and trained labour competency in communities where they are often in short supply.

In providing this external economy effect in a controlled system of migrant labour, the mines provide a rather unique service and probably play a major role in promoting regional development in South Africa. Accordingly, and notwithstanding the social dislocation impact of labour migrancy, in the current stage of Southern Africa's economic development, the gold mines' role as a development agency should not be underestimated.

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In many cases mines are located in previously underdeveloped areas and, thereby provide a 'core' for the economic development of these regions with trickle-down effects penetrating through much of the regional economy.

In this way, the mines provide a further economic development service, particularly important in view of the need to improve income distribution.

The beneficiation of mineral products has provided the foundation for a significant portion of South Africa's industrial base and good potential exists for further progress in adding value to our minerals.

In the course of such value added functions, valuable employment and other spin-off opportunities are generated for the rest of the economy.

The main negative case for mining claims on scarce capital resources is the apparent high cost of direct job creation on the mines. This argument suggests that an expenditure of about R2bn (the cost of developing a new gold mine) would add more to employment that, in the end, operates with a in secondary industry than in mining where about 20 000 new jobs could be expected to be created. Although this is the common wisdom, it may not necessarily be true. Reserve Bank figures (December 1989 Quarterly Journal) show that the mining industry accounts for 8,5% of the nations total fixed capital stock, but employs some 13% of the economically active population. This suggests that the mining industry's capital/labour ratios are not out of kilter with many areas in the rest of the economy.

Chart 1 provides a simple capital labour comparison for certain sectors of the economy. The evidence is that the capital cost of providing jobs in mining, whilst higher than for manufacturing and construction, is somewhat lower than job creation costs for commerce and services.

Chart 1
Capital/Labour Ratios
(December 1988)

Mining	47,6
Manufacturing	30,8
Construction	3,1
Commerce	93,2
Tertiary sector	124,6

Sources: SA Reserve Bank Quarterly Bulletin
Central Stastical Services
Selected Economic Indicators

Any new economic dispensation in South Africa will no doubt be influenced by the political ideologies of the nation's new leaders or any of the major participants in the power sharing process. In the event of major changes in the political structure, it will be all too easy to allow political demagoguery to overshadow economic good sense. However, the key goal must not be forgotten and that is to encourage the maximum rate of capital formation in order to provide an optimal number of new job opportunities. The gold mining industry has a strong case for continuing to play its, by now traditional role, as a prime promoter of new capital formation and job creation.

Nationalisation of gold mines?

The debate concerning the future course of economic strategy does, of course, involve an assessment of the pro's and con's of nationalisation. Many Black leaders have singled out the gold mines as a potential target for State control.

Undoubtedly behind the desire for a State owned gold mining industry is the socialist doctrine that natural resources belong to the people and that the Government, as the representative of the people, should undertake the exploitation of such resources. Also, of course, the key role that gold mining plays in the economy as an employer of labour and provider of foreign exchange, plus its well known historical role as a core development industry, make it an ideal target for nationalisation. Any new Government wishing to emphasize a change in economic focus must look on the gold mines as a high profile flagship of any economic policy reorientation.

Understanding some of the apparent motives for greater State involvement in gold mining is one thing. Of more pertinence for this paper is an analysis of the economic argument for gold mining nationalisation. Accordingly, the main aspects examined are:

> the benefits to the Government that could ensue from the ownership of gold mines and whether the gold mines would prove an asset or a burden to the State?

Economic rationale of gold mine nationalisation

The gold mining industry, on close examination, does not appear to be a prime candidate for State ownership.

Contribution to the economy

The gold mines now only account for some 7% of GNP, a somewhat smaller stake than that of the comparatively recent past (see chart 2). Furthermore, the declining level of physical production on the gold mines (down from 1 000 tons per annum in 1970 to just over 600 tons last year) has meant a negative contribution to the growth in national output for much of the past two decades.

Chart 2
Gold Mining – Contribution to
Gross Domestic Product

	% of Total
1915	25,2
1925	15,2
1935	22,2
1945	13,9
1955	9,6
1965	10,1
1975	9,9
1985	11,1
1989	7,3

Source: Central Statistical Services

Obviously it could prove embarrassing for the State to become the owners of an industry seemingly in a secular decline and playing an increasingly less prominent role in overall economic activity.

Return on capital

Part of the rationale for State ownership of productive assets would appear to be the desire to direct the redistribution of income and profits from such industries to other nationally important areas. Does the gold mining industry actually provide a substantial *redistributable reserve?*

Chart 3
Analysis of Mine Working Results – 1989 (for selected mines) (% of Total Revenue)

	LOW COST		MEDIUM COST		HIGH COST	
	Driefontein	Harties	Western Deep Levels	Buffelsfontein	Harmony	Loraine
Working costs	46,0	56,8	62,8	82,5	95,7	96,2
Taxation	28,7	25,0	6,8	10,2	0,8	4,0
Capital expenditure	12,5	4,8	22,5	2,2	3,6	(4,4)
Dividends	12,8	13,4	7,9	5,1	(1,7)	—
Working revenue	100,0	100,0	100,0	100,0	100,0	100,0

Source: Chamber of Mines – Analysis of Working Results
( ) debt financed

The *return on capital* is particularly low on the gold mines. Chart 3 illustrates that, for gold mines with different mining cost structures, the percentage of working revenue accruing to shareholders is relatively low in general, and non-existent for high cost mines.

The reason for the low return to shareholders is that the major portion of mine working revenues is swallowed up by working costs. Even in low cost mines, working cost expenditures take up 50% or more of total revenues; it is considerably more in the case of higher cost producers. Typically, labour costs account for some 50%-60% of total working expenditures. In addition to such ongoing production costs, mines must devote a considerable portion of their revenues to capital expenditure on mine development. Mining is a wasting asset industry. As reefs are mined-out, additional capital spending must be incurred in opening of new working areas, including tunnels, stopes, ore clearing passages and the additional transport, ventilation, power and other services required for such working faces. Without such ongoing spending of capital on development the working life of the mine would be reduced drastically and the mine would soon die. Such spending is an essential part of the mine's production process and cannot be foregone.

Any prospective mine owners should be aware of the fact that the industry requires constant injections of capital, which severely erodes the capital redistribution attributes of the gold mining industry. Normally, and the past two years are cases in point, capital expenditure by gold mines exceeds the dividends paid out to shareholders. Furthermore, the *'ring fencing'* requirements of the authorities ensure that any gold mine's capital expenditure is confined to the mine's existing lease area. Accordingly, the redistributive capabilities of the mines are purely confined to the dividends they pay out in dividends.

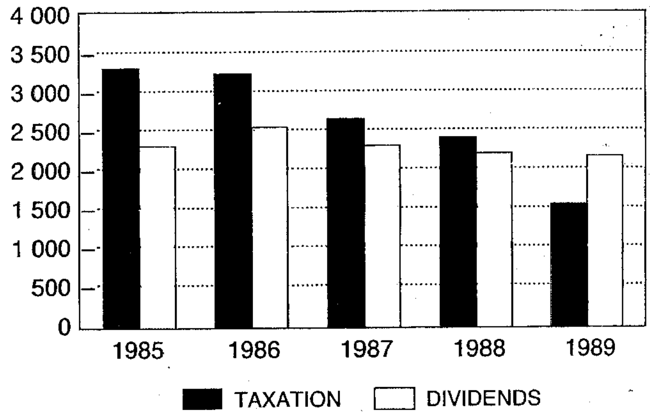
The total capital stock of the gold mines, on historical cost terms, probably exceeds R50bn. In both 1988 and 1989, total dividend payments amounted to just over R2bn. The overall return on capital of some 4% is dismal. Clearly any prospective take-over of the gold mines must be deterred by the poor rates of return and by the way that the cost and capital hungry nature of the mines eats away at the proceeds available for redistribution.

Gold mining profitability

The *after tax profit* of the gold mines in 1988, i.e. before dividend payments, amounted to R2,2bn. The equivalent figure for other private business enterprises was R26,76bn, i.e. gold mining profits accounted for only some 8,2% of total private business returns.

A State take-over of gold mining profits would only provide it with a very marginal access to private sector capital generation.

Graph A
Tax & Dividend Payments
SA Gold Mines



Source: Chamber of Mines

Furthermore, nationalising the mines to gain control of *dividend income* has few positive attractions:

- Total dividends paid by gold mines in 1989 amounted to only R2,1bn (i.e. only 2,7% of current State expenditure). Seizing such a small income stream would scarcely seem worthwhile because it would only produce a minor increment in State expenditure.
- *Taxation payments* by gold mines normally exceed dividend payments (see graph A). Nationalising the industry might prove a double edged sword. The lower efficiencies associated with nationalised industries seldom result in them creating profits and, of course, they do not pay tax. A Government bent on nationalising the mines might well jeopardize its income flow from gold mining taxation, which usually exceeds the flow of dividends.

The costs of nationalisation

There is a cost associated with gold mining nationalisation. If the mines are taken *over without* any form of *compensation,* the State could suffer through loss of face and credibility and would surely pass on the incorrect signals to the private sector, i.e. if gold mines are nationalised, what other sectors of the economy would be next?

In particular, the impact on *foreign investors* must be considered. Some 20% of all South African gold mining shares are still in the hands of non-resident investors. Seizing their shares without compensation would merely invite retaliation and would undoubtedly terminate the chances of any fresh foreign investment. The example of Zimbabwe, just north of our borders, pinpoints the pitfalls of confiscation or freezing of foreign assets.

The South African gold mines have traditionally been the focus of both direct and indirect foreign investment in this country. They remain the overwhelming receptacle for much of the foreign investment that remains. The nation's considerable need for capital in the future will require foreign investment on a large scale and this would not be forthcoming should present assets in the country be subject to confiscation.

Should the gold mines be taken over *with compensation,* the costs would be considerable. The market capitalisation of South African gold shares is approximately R55bn. This amounts to 85% of total State expenditure incurred over the fiscal year that ended last February. Obviously, this would impose an impossible current burden on the State and so paper rather than cash would need to be issued to pay for the mines.

Total public debt, at the end of 1989, amounted to R81bn. An additional R55bn debt incurred for gold mining nationalisation would wreck any attempts at disciplined public debt management and would severely impair the Government's borrowing capabilities.

The amount of approximately R10bn owned in South African gold shares by foreigners would need to be added to South Africa's foreign debt, contributing further to the debt servicing burden that is severely constricting South Africa's growth potential.

Loss-making gold mines

South Africa currently has 48 gold mines, each producing at least 1 ton of gold or more per year. Of these, only 21 mines are currently operating at a profit, if normal capital expenditure is taken into account. Even if capital expenditure is not considered, and, as shown earlier, such development capex is a necessity to preserve mine working life, then 22 of the industry's mines are currently in a loss-making situation.

The mines with working costs above current gold prices account for some 30% of South Africa's gold production and for close to 40% of the total jobs in the gold mining industry.

Should the industry be nationalised, these mines would fall under State support and could probably be expected to incur even greater losses because the necessity of curbing red ink would fall away. Accordingly, under present gold price/working cost conditions, at least half the gold mining industry would become a burden of the State. Ultimately, the onus of subsidisation would fall back on the taxpayer and this is not a burden that the State should readily bequeath on its citizens, particularly if it requires their votes and support.

Financing of new gold mines

The high costs, falling grades and declining working lives characterising a substantial portion of South Africa's gold mining industry render it imperative that a new generation of gold mines be developed in the near future. Unfortunately, as is well accepted, the current *'mix'* of gold prices, taxation structure, high working costs and the uncertain nature of future development in these areas clearly clouds the outlook for go-ahead on new projects.

A further obstacle is the availability of capital. New gold mines, of any reasonable depth and size, require initial capital funding of some R2bn to get into a self-funding stage. In certain cases, capital expenditure requirements might exceed this figure. Normally, a period of between 5-10 years is required to bring new mines to the production stage.

Furthermore, despite the long lead-in times and high capital cost involved in new mine development, there is no guarantee that the gold bearing reefs will prove to be as rich or constant in nature as promised by drilling programmes.

In short, the risks associated with new gold mines are considerable. Pay-backs only take place over a number of years and, combined with long lead times, valuable capital resources can be locked up for considerable periods. Clearly, it can be argued that the State should tread cautiously in involving the public at large, i.e. the taxpayer, in such high risk ventures.

Pouring money into a hole in the ground that will probably only yield returns in terms of jobs provided and dividends in a decade or more might also prove to have limited attractions for the State with its more pressing near-term social and economic obligations and objectives. Voters and the unemployed are unlikely to be as enthusiastic about the promise of jobs and other economic returns at the turn of the century flowing from a new gold mine than they would be about more instant gratification.

The high risk profile of new gold mine development normally finds some relief in the concept of *'spreading the risk'.* Gold mine developers usually lay-off the investment risk by spreading it amongst other mining houses, financial institutions and general equity investors, both here and abroad. The unique South African mining finance house structure and, in many respects, the Johannesburg Stock Exchange originated and grew purely for the purpose of developing new mines. However, should the Government of the day nationalise the industry, it would appear most unlikely that equity investors or finance houses would be prepared to, or be in a position to, assume some of the risk of developing new gold mines. The State would need to assume the entire risk of such ventures which would appear to be an unnecessary burden for taxpayers to bear.

Taxation of gold mines

The State participates in gold mining ventures through the tax system. Gold mines can write off all capital expenditure incurred, including new projects, before any tax liability occurs. In this way the State participates as the *'silent partner'* in gold mining expansion. No direct Government capital investment is involved, thereby alleviating the need for incurring public debt. The formula tax system does, however, mean that the State can obtain around 70% of gold mining profits, once the gold mine is fully operational.

Accordingly, the State does operate as a substantial partner with the gold mining industry, through the mining lease and formula tax system. Any *'windfall profits'* obtained by a rising trend in the gold price are fully enjoyed by the Fiscus as the tax system ensures a more than proportionate share of profits is channelled in that direction.

Employment on gold mines

Could a nationalised gold mining industry contribute to job creation, particularly black jobs, in South Africa?

Present gold mining methods are notably labour intensive and it would appear difficult to envisage much change in the labour/capital mix for the majority of existing mines. In other words, little further could be done to promote the labour intensity of the industry.

Current pressures on costs also indicate that little improvement in labour remuneration is possible without productivity improvement. As progress is made up the skill curve, the number of job opportunities in the normal course of events is reduced.

The steady progress of gold mines towards greater depths and often lower grades tends to promote mechanization. Unfavourable working conditions at great depth and often restricted margins are and will increasingly favour mechanical mining methods. New gold mines will probably lean in favour of mechanised mining, not only to promote the necessary efficiencies but also because of the discomfort, dangers and low productivity associated with manual mining methods at great depths.

The gold mine's labour force is predominantly obtained from rural areas and some 40% of the labour force comes from outside South Africa's borders. The future challenges for South Africa, with its massive population swing to urbanisation, is to provide jobs in the cities. Gold mines, both through their location and the unpopular nature of mining as a vocation, are unlikely to contribute significantly to urban job creation.

Competition strategy in gold mines

The gold mining industry, in common with most other mining producers, is a *price-taker* with both the price and demand for its product established abroad. The exogenous nature of market determination, which means that the gold mines are unable to control the final price of their product, requires significant discipline in the mines' cost control, particularly in periods of relatively depressed prices, such as at present.

The profit motive and the fear of losses are a powerful disciplinary force, which is often necessary in price-taking industries. Unfortunately, nationalised industries often lack the discipline in cost control and efficiencies required to operate in market environments where price determination is beyond their control.

Most successful nationalised industries enjoy some form of monopolistic power to control the price and supply/demand forces for their products. In other words they are favoured by conditions wherein they enjoy *price-making* circumstances.

Gold mining is now a highly competitive international industry. Gold mines operate in many other areas of the world, normally under conditions more favourable than those of South African mines. Mining depths are considerably shallower, often allowing open-pit or surface operations, with concomitantly lower operating cost and initial capital requirements than deeper South African mines. Taxation rates are normally lower than in South Africa and in some cases, i.e. Australia, no gold mine tax is paid at all. The general inflation rates, under which gold mine cost structures are established, are usually lower than in South Africa.

South African gold mines labour with some considerable comparative disadvantages compared with their international competitors. Accordingly, there is a strong chance that a less efficient nationalised industry might lose further valuable ground in international competitiveness.

Conclusion

In conclusion, the gold mining industry in its present state holds limited attractions for nationalisation. The economic gains of redistributing the poor current capital returns of the gold mines do not seem to offset the negative consequences of making the industry a burden of the State.

South African mineral exports have to survive in highly competitive world markets, where competitors are predominantly market orientated. The developing world is littered with curtailed and defunct nationalised mining operations that could not meet the challenges of the market place. Obviously, private enterprise mine developers would be best placed to compete on an international basis. If mines did not meet the required returns, they would ultimately be closed and new developments would not be started unless they provided returns commensurate with those available elsewhere in the economy. In this way the scarce capital resources of the country would be harnessed to the best effect.

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