

2009 Transformation Audit

# Recession and Recovery

- Hard times for black business
- Social class and unequal outcomes in SA schools
- Exclusion in the labour market
- Searching for an anti-poverty strategy



# Recession and Recovery

*Edited by Jan Hofmeyr*



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# contents



List of tables and figures	v
Contributors	vi
Acronyms and abbreviations	vii
Preface <i>Fanie du Toit</i>	ix
Introduction <i>Jan Hofmeyr</i>	xi
<b>CHAPTER 1 Governance and the economy</b>	01
<b>Scorecard Economic performance</b>	03
<b>Analysis</b> The impact of the global recession on the South African economy and the government's response <i>Azar Jammine</i>	04
<b>Analysis</b> BEE is dead! Long live BEE! <i>Lumkile Mondli</i>	14
<b>Review</b> Reflections on building a sustainable social pact: Business, labour and the state under Jacob Zuma <i>Adam Habib</i>	22
<b>CHAPTER 2 The labour market</b>	31
<b>Scorecard Labour market performance</b>	33
<b>Review</b> The South African labour market in the global financial crisis: Recovering lost gains <i>Dieter von Fintel and Rulof Burger</i>	34
<b>Analysis</b> Draft Expanded Public Works Programme: A major role in reducing unemployment and poverty? <i>Anna McCord and Charles Meth</i>	43
<b>Review</b> Political influence without organisational power: COSATU'S contested future <i>Sakhela Buhlungu</i>	53



<b>CHAPTER 3</b>	<b>Education and skills</b>	63
<b>Scorecard</b>	<b>Education and skills development</b>	65
<b>Research</b>	Socio-economic status and educational achievement: Does education provide a stepping stone out of poverty in South Africa? <i>Stephen Taylor and Derek Yu</i>	66
<b>Briefing</b>	The National Benchmark Tests Project: Addressing student educational needs in the tertiary education system <i>Nan Yeld</i>	76
<b>Review</b>	From JIPSA to HRD-SA: Continuity and disjuncture in the development of a national human resource strategy <i>Renee Grawitzky</i>	84
<b>CHAPTER 4</b>	<b>Poverty and inequality</b>	93
<b>Scorecard:</b>	<b>Income poverty and inequality</b>	95
<b>Scorecard:</b>	<b>Access poverty</b>	96
<b>Research</b>	The persistence of high income inequality in South Africa: Some recent evidence <i>Ingrid Woolard, Murray Leibbrandt and Hayley McEwen</i>	98
<b>Review</b>	Poverty in South Africa: Government attempts to include the excluded in designing policies and programmes aimed at reducing poverty <i>Vusi Gumede</i>	108
<b>Analysis</b>	Rural livelihoods and market integration: Agrarian policy in South Africa <i>Andries du Toit</i>	116
References		126

## LIST OF TABLES AND FIGURES

### TABLES

Table 1.1.1:	Market exchange rates, percentage change against US dollar	6
Table 2.3.1:	COSATU membership, 1991–2006 (rounded to thousands)	59
Table 4.1.1:	Percentage of population classified as poor at two poverty lines	98
Table 4.1.2:	Poverty headcount index at lower poverty line	99
Table 4.1.3:	Gini coefficients for per capita income by race and rural/urban	99
Table 4.1.4:	Income and expenditure shares and means by race, 2008	100
Table 4.1.5:	Income decile composition of each race, 2008	101
Table 4.1.6:	Theil decomposition of income into between-race and within-race components	101
Table 4.1.7:	Inequality decomposition by income source, 1993	104
Table 4.1.8:	Inequality decomposition by income source, 2000	104
Table 4.1.9:	Inequality decomposition by income source, 2008	104
Table 4.2.1:	Recent measures of poverty in South Africa	110

### FIGURES

Figure 1.1.1:	GDP growth over time	7
Figure 1.1.2:	Gross fixed investment as a percentage of GDP versus gross savings as a percentage of GDP	8
Figure 1.1.3:	Public debt as a percentage of GDP	9
Figure 1.2.1:	Value of BEE transactions over time (R billion)	16
Figure 2.1.1:	Labour market status (official definition), 1999–2009	35
Figure 2.1.2:	Job destruction, overall and by skills level	37
Figure 2.1.3:	The skills composition of the employed, 1997–2009	37
Figure 2.1.4:	Job creation by occupational skill level and selected industries	38
Figure 2.1.5:	Actual and projected GDP growth, 1993–2014	40
Figure 2.1.6:	Actual and projected total employment, 1995–2014	40
Figure 3.1.1:	Mean reading scores in PIRLS, 2006	68
Figure 3.1.2:	5th percentile, 50th percentile (median) and 95th percentile of performance	68
Figure 3.1.3:	Kernel density curves of South Africa's reading achievement by 'school sub-system'	69
Figure 3.1.4:	Socio-economic gradients in international comparison	70
Figure 3.1.5:	Socio-economic gradients by school 'sub-system' in South Africa	71
Figure 3.1.6:	Lowess regression curves for each school 'sub-system' in South Africa	71
Figure 3.1.7:	Proportion of variation due to differences between schools for PIRLS participants ( <i>Rho</i> )	73
Figure 3.1.8:	Direct and indirect effects of socio-economic status on educational achievement	73
Figure 3.1.9:	Schematic diagram of the social mobility process	74
Figure 3.1.10:	Proportion scoring above national average by socio-economic status quintile	74
Figure 3.1.11:	Proportion scoring above national average by school mean socio-economic status quintile	75
Figure 3.2.1:	NBTP performance benchmark levels	77
Figure 3.2.2:	February 2009 pilot results, academic literacy	78
Figure 3.2.3:	February 2009 pilot results, quantitative literacy	79
Figure 3.2.4:	February 2009 pilot results, mathematics	81
Figure 3.2.5:	Faculty-specific February 2009 pilot results, mathematics	81
Figure 3.3.1:	The HRD-SA structure	87
Figure 3.3.2:	The JIPSA structure	89
Figure 4.1.1:	Income shares by decile, 1993, 2000 and 2008	99
Figure 4.1.2:	Income Lorenz curves by race	101
Figure 4.1.3:	Income components by decile, 1993	102
Figure 4.1.4:	Income components by decile, 2000	102
Figure 4.1.5:	Income components by decile, 2008	103
Figure 4.1.6:	Labour force participation rates by decile, 1993, 2000 and 2008	105
Figure 4.1.7:	Unemployment rates by decile, 1993, 2000 and 2008	105
Figure 4.1.8:	Labour absorption rates by decile, 1993, 2000 and 2008	105

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## ACRONYMS AND ABBREVIATIONS

ALMP	active labour market policy	IMF	International Monetary Fund
AMPS	All Media Products Survey	JIPSA	Joint Initiative on Priority Skills Acquisition
ANC	African National Congress	LARP	Land and Agrarian Reform Programme
ASGISA	Accelerated and Shared Growth Initiative for South Africa	LRA	Labour Relations Act 66 of 1995
BBBEE	broad-based black economic empowerment	LRAD	Land Reform for Agricultural Development
BEE	black economic empowerment	M&As	mergers and acquisitions
CCMA	Commission for Conciliation, Mediation and Arbitration	MTSF	Medium-term Strategic Framework
COSATU	Congress of South African Trade Unions	NBT	National Benchmark Test
CWP	Community Work Programme	NBTP	National Benchmark Tests Project
DFI	development finance institution	NEDLAC	National Economic Development and Labour Council
DHET	Department for Higher Education and Training	NEF	National Economic Forum
DoE	Department of Education	NIDS	National Income Dynamics Study
DoL	Department of Labour	NMC	National Manpower Commission
DPW	Department of Public Works	NPC	National Planning Commission
EAP	economically active population	NREGA	National Rural Employment Guarantee Act
ECD	early childhood development	NSC	National Senior Certificate
EPWP	Expanded Public Works Programme	PCAS	Policy Co-ordination and Advisory Services
FTE	full-time equivalents	PIRLS	Progress in International Reading Literacy Study
GEAR	Growth, Employment and Redistribution	PLAAS	Institute for Poverty, Land and Agrarian Studies
HESA	Higher Education South Africa	PSLSD	Project for Statistics of Living Standards and Development
HLM	Hierarchical Linear Modelling	<i>QLFS</i>	<i>Quarterly Labour Force Survey</i>
HRD	human resource development	RDP	Reconstruction and Development Programme
HRDC	Human Resource Development Council	RESIS	Revitalisation of Smallholder Irrigation Schemes
HRD-SA	Human Resource Development Strategy for South Africa	SACP	South African Communist Party
IDC	Industrial Development Corporation	SALDRU	Southern Africa Labour and Development Research Unit
IEA	International Association for the Evaluation of Educational Achievement	SES	socio-economic status
IES	Income and Expenditure Survey	SLAG	Settlement and Land Acquisition Grant
		TIMMS	Trends in International Maths and Science Study



## PREFACE

**T**ransformation remains fundamental to the building of a just and equitable post-apartheid state. Few words in South Africa's political lexicon are vested with so much currency and moral weight. Few have the power to sanction or overrule policy or behaviour as it does. Without risking exaggeration, it is safe to say that the concept has become the central reference point that provides the momentum for the rebuilding of the South African state from its apartheid ruins.

While it has been articulated in so many different ways over the past decade and a half, the majority of definitions of transformation within the South African social context converge around the idea of change from a setting where human dignity was denigrated as a result of the concentration of political and economic rights to one where dignity flows from an equitable distribution of these rights. It is possible, therefore, to distinguish the society that we came from and the one that we aspire to by the distribution of their political and economic influence.

Racism motivated the protracted denigration of black South Africans over centuries. It is, however, hardly imaginable that racism would have found such systematic application in society were it not for the unequal rights, access and influence that underpinned it. Thus, to reduce the transformation debate simply to questions of attitudinal change, as some do, would be missing the underlying source of injustice. This assertion is not to deny the undoubted and continued confluence of race and class, but rather serves to highlight that social exclusion (be it on the basis of race, class or any other ascriptive category) depends crucially on inequality. Any pursuit of transformation ought to be aimed not only at outlawing racism, but also at eradicating the social structures that produce and reproduce inequality. Indeed, one could argue that without systemic transformation, racism is bound to reproduce itself.

The Transformation Audit represents the Institute for Justice and Reconciliation's contribution to tracking progress (or otherwise) in dismantling the structural dynamics that continue to generate unequal outcomes. It does so by presenting key statistics and in-depth analysis in its four areas: the macro-economy, labour market, skills and education, and poverty and inequality.

Since the first edition of the Audit in 2004, this report has commented on the massive developmental challenges that the country faces in its pursuit of a just and equitable material dispensation for its citizens. Some obstacles have been identified, and steady gains acknowledged. The macro-context includes stable variables such as growing government revenues, declining levels of poverty, and unemployment levels receding

from a high base. At the same time, the country's inequality levels have remained disconcertingly high.

With the effects of an international financial crisis reaching our shores, the context has changed markedly. Shrinking government revenues, clear indications of growing material insecurity and a substantial decline in employment levels are all emerging. This edition of the Audit, titled *Recession and Recovery*, traces the impact of South Africa's descent into negative-growth territory for the first time in 17 years. The editorial team, headed admirably by Jan Hofmeyr, once again has managed to assemble some of the country's leading researchers and specialists to make sense of this environment with lucid analysis, presented as an accessible resource to all who are concerned about the promotion of social justice in this country.

Viewed as a whole, this compilation of articles provides a mixed picture and suggests that, from a material perspective, 2009 provided limited scope for the creation of a more prosperous and equitable society. On the one hand, it highlights significant gains over the past 15 years, which (at least from a fiscal vantage point) have allowed the country to be more resilient than several of its peers in the face of a hostile international environment. On the other hand, it casts its attention on a population that remains highly unequal and particularly vulnerable to an economic downturn. Structural unemployment and an under-performing education system add a distinctly entrenched quality to this vulnerability. In a sense, the adverse economic conditions have served to accentuate these weaknesses, as well as the need for a sustainable growth path that places much stronger emphasis on the development of the country's human resources.

This indicates the need for responsible political leadership that empathises with and supports citizens through this trying period. Such leadership should not imply command and imposition from the top, but rather the ability to inform, listen and respond to the plight of those whose dignity has been profoundly affected by conditions beyond their control.

The Institute would like to recognise and express its gratitude to the Royal Embassy of the Kingdom of the Netherlands, the Swedish International Development Co-operation Agency (SIDA) and the Charles Steward Mott Foundation for their generous support in making quality publications like this one available; their commitment to supporting the Institute's vision of promoting fair, democratic and inclusive societies in Africa is sincerely appreciated.

*Fanie du Toit*  
*Executive Director, Institute for Justice and Reconciliation*



## INTRODUCTION

### RECESSION AND RECOVERY

Jan Hofmeyr

The 2008 Transformation Audit, titled *Risk and Opportunity*, concerned itself with the theme of uncertainty. In both the economic and political spheres, South Africa found itself at a volatile juncture.

At the time of publication in December 2008, most of its main trading partners were already in recession. The writing for the country's impending descent into recession was on the wall. A fourth-quarter contraction of 1.8 per cent in GDP supported this view, and while most were expecting negative growth for the first quarter of 2009, they were startled by its magnitude. With a substantial GDP decline of 6.4 per cent, announced in May, South Africa entered its first recession since 1992. The questions were no longer, 'whether' or 'if', but rather 'how deep' it would be.

In the political sphere, the 2008 Audit also alluded to the unfortunate concurrence of an unfolding economic crisis and the debilitating contest for the leadership of the African National Congress. This battle for control over the country's most influential political agency spilled over into the public sphere and, in some instances, split loyalties in key state institutions from top to bottom.

While these events were unfolding, preciously little leadership emerged from the government in response to a global downturn, which some predicted might be as severe or even worse than the depression of the 1930s. During the year, the country's head of state was recalled, replaced by a caretaker president, and the ruling party's preferred successor, Jacob Zuma was fighting several charges of corruption in court. The situation was untenable and had to be resolved as a matter of urgency.

The country's fourth general election in April provided a degree of closure and consolidation for this protracted political saga. Prior to the election, in which the ANC emerged victorious, once again with a considerable majority, all charges were dropped against Zuma, paving the way for his inauguration in May.

In a sense, both events – the recession and Zuma's inauguration – contributed to the partial clarification of the economic and political uncertainty that pervaded the country over the previous two years. Although much vagueness

around the content of policy still exists, both events brought to an end the speculative nature of this period.

While *Risk and Opportunity*, therefore, captured the tentativeness of these debates in 2008, *Recession and Recovery*, the theme for the 2009 edition of the Audit, provides an initial assessment of the concrete impact of the recession and the governance of the new political guard within the ANC on key aspects of the macroeconomy, the labour market, skills and education, and poverty and inequality. Most certainly, broad transformation does not hinge on the economic variable alone; thus, it would be incorrect to argue that absence thereof would completely derail the country's national agenda for social change. It does, however, provide greater scope for accelerated change. This Audit deals with the challenges, prospects for recovery and potential gain, in the wake of the recession, in each of the publication's focus areas.

### DIFFICULT TIMES

South Africa's current economic woes, unlike those of several other countries that find themselves in a similar position, did not originate in the global financial markets.

Consequently, South Africa was not compelled to resort to massive rescue packages merely to inject liquidity back into the markets, but rather could offset some of the impact through investment in public infrastructure. Since such investment had already been on the cards some time prior to the start of the crisis, it was factored into the country's medium-term budgeting framework and could be backed up by resources that were available as a result of prudent counter-cyclical planning.

At the same time, it was also clear that the country would have to borrow significantly in order to guarantee the implementation of these projects. The government underestimated the degree to which liquidity had dried up in increasingly risk-averse global markets and the extent to which this impacted on the costs of borrowing. To complicate things further, the credit rating of one of the primary beneficiaries of its infrastructure expansion programme, Eskom, was downgraded due to the troubles

that have beset the energy monopoly in recent years. This further raised the costs of potential borrowing. As a result, the parastatal opted to retrieve a more sizeable proportion of its infrastructure costs through massive tariff hikes, which could have far-reaching inflationary consequences. In the wake of a fierce boardroom battle about the utility's turnaround strategy, which saw the departure of both its CEO, Jacob Maroga, and board chairperson, Bobby Godsell, indications are that Eskom might be pressed to seek a more evenly balanced funding model.

Unfortunately, the frailty in governance that was exposed by the Eskom saga has become a malaise within the country's other parastatals. With the CEO of Armscor, Siphon Thomo expected to step down in the near future as a result of board pressure, Armscor will join the company of Eskom, Transnet, SAA and the SABC in having an acting CEO. It must be asked whether a state that sees itself as central to national developmental processes can afford such a situation.

While several infrastructure projects, particularly those relating to the 2010 Soccer World Cup, are underway, there is a critical social imperative for the infrastructure expansion programme to get off the ground in its entirety. It is needed to stimulate economic activity, but much is also expected in terms of its role as a catalyst for job creation.

Employment statistics, however, have made for depressing reading. The *Quarterly Labour Force Survey* for the third quarter of the year points to a year-on-year loss of 770 000 jobs. Given the country's traditionally high unemployment rate, the 1.3 per cent increase from 23.2 per cent in September 2008 to 24.5 per cent during the same period in 2009 may not seem significant. Yet, closer analysis points to a much larger impact. A 70 000 decrease in the official number of employed South Africans does not correlate with 770 000 job losses. Rather, it suggests that a significant section of the balance may have classified themselves as discouraged jobseekers, a category that is not included in the narrow definition of unemployment.

At present, the prospects of a reversal of this situation over the short to medium term appear to be limited. During November, the government had to concede that it is unlikely that its target of 500 000 new job opportunities would be met by the end of the year. Also, in the private sector, the forecasts for improved labour market conditions are not optimistic. As a result of the drop in domestic demand, activity in the service industry has been subdued, while lower global demand has put a lid on exports and, by implication, prospects for increased employment in the manufacturing sector. While a faster than expected recovery by the two emerging giants, China and India, seemed to have

blown some life into the commodity markets during the fourth quarter, the high value of the rand, due largely to a surge in portfolio investments on the JSE during the fourth quarter, may diminish some of the impact. This should be cause for some concern, because this type of fluid investment, combined with low industrial growth, renders the economy particularly vulnerable.

Lower levels of employment, combined with increased levels of human insecurity, have significant implications for social stability, as the renewed surge of violent protests in recent months suggests. As a result, the recession has frustrated the government's intention to decrease the dependence of more than a quarter of South Africans on social welfare (in the form of grants and pensions). Although the economy returned to marginal growth during the third quarter of 2009, there will be little immediate difference in the current situation. With fewer South Africans at work, more will become dependent on the grants and pensions of family relations and friends. Consequently, the government will not merely have to sustain the current level of social expenditure, but will have to expand it to provide a partial buffer against increasing material deprivation.

This responsibility and the projected increases in public infrastructure are going to have a definite impact on the country's budget deficit. In the February budget, Trevor Manuel predicted a deficit of 3.8 per cent for the 2009/10 financial year. By October, with a shortfall of about R70 billion in projected revenue, his successor, Pravin Gordhan had to revise this figure upward to 7.6 per cent (double the February prediction). Needless to say, this will have a profound impact on government borrowing and interest repayments, which may crowd out expenditure on key areas of social need in coming years.

Since the government will have little control over fluctuations in the global economy, it will have to focus on those aspects over which it does have some influence. Therefore, the style and efficiency of governance will be decisive, in terms of its ability to limit the fallout of the crisis and to shape the way in which the local economy emerges thereafter.

## **CONSOLIDATING GOVERNANCE**

The ANC's new political guard, headed by Jacob Zuma, was voted into office in April 2009, albeit by a slightly lower margin than in 2004 and at the cost of the Western Cape to the Democratic Alliance. Elected on the basis of its Polokwane Manifesto, it was envisaged that the tensions which pervaded the organisation in preceding years would be resolved by the

'new' ANC. Given the adverse socio-economic conditions in which the majority of South Africans found themselves, it was critical for the party, but also the country as a whole, that it should be in a position to harness all its energies towards the improvement of the plight of the most vulnerable South Africans.

In line with the party's Polokwane mandate, new ministries were created, and established ones were split or renamed to give effect to conference resolutions. Titles of the new portfolio's, which included Rural Development and Land Affairs, Performance, Monitoring and Evaluation, and Women, Youth, Children and People with Disabilities, offered demonstrable proof of the ANC government's determination to make good on its manifesto promises to the electorate. Because of the pivotal role they played in the changing of guard within the ANC, alliance partners from the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP) were rewarded with senior positions in the ruling party and in President Zuma's new administration. Thus, in the months immediately following the elections, the alliance presented a much stronger show of unity than had been the case for many years.

However, it was in responses to the Green Paper on one of the new administration's most anticipated structures, the National Planning Commission (NPC), that the fierceness of contestation for influence within the new political power configuration was revealed. At the centre of the dispute was the composition and role of the NPC, but in close proximity thereof was the personality of Trevor Manuel, who had been at loggerheads with the left for most of his tenure as Finance Minister. In terms of the Green Paper, it was proposed that Manuel preside over the commission, which would consist of a panel of experts to advise the government on longer-term strategic thinking and prioritisation. An alliance forum for bargaining or contestation was not envisaged; rather, one solely devoted to shaping the best possible approaches to government was expected. However, the left feared that the economic planning and policy-making function would be usurped by the NPC, instead of being exercised by the new Ministry for Economic Planning, headed by former trade unionist Ebrahim Patel. Debates around this issue became highly acrimonious and, in some instances, intensely personalised.

Despite an alliance summit in November partially resolving the matter through a decision to retain Manuel as head of the NPC and an undertaking to review the role of the Reserve Bank, clear lines have been drawn by different groupings within the alliance. While the intensity and robustness of these debates should be seen from the perspective of their

importance for future policy development, it should be hoped that such internal contestation will not once again descend into scenarios akin to those of recent years, where governance has been held ransom to debilitating internal party battles.

It is imperative that key structures, such as the NPC, should be constituted without delay. At the time of writing, six months have lapsed since the appointment of the new government. Its mandate will have to be clarified as a matter of urgency to ensure that a policy and planning void does not emerge as a result of existing structures, which defer their decision-making responsibilities to entities that are yet to be constituted. Arguably, the country cannot afford to further postpone implementation of a structure, such as the NPC, that has the potential to be instrumental in shaping the country's medium- to long-term socio-economic transformation.

The need for urgent action is underlined by the National Treasury's Medium-term Expenditure Framework, which reveals that provinces have failed to spend more than half of their budgets for the first six months of the 2009/10 financial year. This is plainly unacceptable in a context of scarce resources, increased material deprivation and heightened expectations on the government to provide relief.

How the government deals with these expectations, however, will depend not only on the resources that it succeeds in mobilising towards these challenges, but also on how it relates to citizens who feel increasingly insecure and anxious about the sustainability of their livelihoods.

Over the past two years, such anxieties have frequently spilled over into violence, which has been labelled by some as 'service delivery protests', referring to public dissatisfaction with the delivery of substandard municipal services. Yet, in several instances, these protests were directed not only at the quality of services, but also at the way that the relevant authorities have responded to the concerns of citizens.

In the absence of such accountability, many evidently felt that their only recourse was to take the law into their own hands. The Zuma administration entered office on the ticket that it would distinguish itself from the Mbeki presidency in terms of its accountability and accessibility to ordinary South Africans. It must be said that a refreshing aspect of the new administration, unlike the Mbeki government, has been its willingness to concede shortcomings and to adopt remedial strategies. On issues such as HIV/AIDS, for example, there has been a sea change in government-civil society relationships. However, as far as its proximity to the ordinary South African public is concerned, it may still need to prove itself more thoroughly.

Closer analysis of the 2009 election results certainly suggests that the ruling party would be mistaken to assume

that its liberation credentials and/or electoral mandate automatically give it privileged access to and influence over the masses. While the ANC managed to garner the support of an impressive 11.6 million voters (66 per cent of those who voted in the recent elections), this percentage shrinks to 39 per cent if viewed as a percentage of the country's total voting age population. Indeed, an underreported aspect of the April poll was the fact that, for the first time in this country's short history of democracy, more eligible voters abstained from voting than those who made their mark beside the name of the continent's oldest liberation movement.

This perspective suggests that the simple imposition of ANC decisions on those traditionally considered to be its primary constituency may have devastating consequences for the cohesion and stability of the political system. Instances such as the inclusion of the Khutsong Municipality into North-West Province against the will of its people made the Mbeki administration infamous for the use of this kind of approach. It will be up to the Zuma administration now to prove that it is different, that it does not pay lip service to the principles of accountability and consultation and, importantly, that it is willing to tolerate dissenting views.

While several positive signals have been observed in this regard, there have been some disconcerting indicators. Recent incidents involving the alleged harassment, intimidation and even murder of members of the slum dwellers' movement, Abahlali baseMjondolo, in Durban by ANC-aligned civic groups should raise concern. According to eyewitness reports, members of the South African Police Service looked on passively while members of the movement, which has successfully challenged the constitutionality of parts of the KwaZulu-Natal provincial government Slums Act in the Constitutional Court, were being intimidated.

Governments should expect to be confronted with heightened levels of public protest and contestation in contexts of material insecurity. As such, it is incumbent on them to respond in ways that broaden the democratic space for engagement, rather than narrowing it through the suppression of opposition voices. If accounts of alleged police complicity in the intimidation of Abahlali baseMjondolo (arguably representing alienated non-voting South Africans) are indeed accurate, it will have set an extremely negative precedent for state-citizen relationships.

## CHAPTER OVERVIEW

Looking back over the past year, it is abundantly evident that adverse economic conditions have had a profound impact on the well-being of the South African nation, and on the

relationships between key stakeholders in society. The four chapters in this volume look at the various ways in which this has manifested within the publication's four focal areas. At the same time, questions are asked about what happens once growth moves back into positive territory: What will recovery look like; which setbacks will take longer than others to be reversed; and which areas should be targeted as potential accelerators of a higher growth trajectory?

## Chapter 1: Governance and the economy

In the first article of the 2009 Transformation Audit, Azar Jammie takes stock of the health of the South African economy after one of its most challenging years since the country's political transition. Albeit sluggish at the time, economic growth levels were positive at the birth of a democratic South Africa, and it stayed that way until 2009. As such, the country's first GDP contraction in 17 years represented unknown territory for the new administration.

In the light of the strong longitudinal correlation between fluctuations in domestic and global economic performance, Jammie believes that such a contraction was inevitable. Given the country's unhealthy dependence on raw material exports, its fortunes continue to be inextricably linked to demand during periods of global growth.

He contends that due to its successful pursuit of reduced budget deficits over the past decade and a half, South Africa may be finding itself in a much better fiscal position than several of its peers in the developing world. The resultant improvement in the country's public debt-to-GDP ratio has put it in a favourable position to raise its public debt levels at a time when stimulus is required. Regardless of this, Jammie expresses concern about the limited availability of finances to pursue greater investment in the economy.

In the absence of such stimulus to the economy, concern has been expressed that popular pressure from below for material relief may force the government to commit itself beyond its means. This, combined with the new-found influence of the left within the tripartite alliance, has given rise to speculation that a decisive shift to the left is gathering pace within the government.

While he does not regard this ideological debate as immaterial, Jammie believes that a public fixation with this question may make it a red herring that diverts attention from the more urgent priorities. Before considering raising tax rates and allowing the deficit to expand, he suggests that South Africans need to think much harder about how we can work more efficiently with the resources at our disposal. The 2009 Mid-term Budget Statement's analysis of provincial expenditure strongly highlights this contention.

In the article following Jamine's, Lumkile Mondi shows that broad-based black economic empowerment (BBBEE) has suffered significant setbacks during the economic downturn. Given the common charge that its narrow nature has enriched a selected few, without changing the material conditions of the majority of black South Africans, some may have observed this development with glee. Yet its impact in terms of asset transfers into black hands, together with the potential for broader distribution, cannot be denied.

Mondi's article outlines some of the losses that have been incurred, as well as the reasons why BBBEE companies, especially those created after 2004, have been particularly vulnerable to the effects of the downturn. He suggests that the majority of BBBEE transactions were financed by equity at a time when returns were high and, as a consequence, business models were heavily reliant on high growth in company share prices to ensure cash flow. The implosion of the markets, coupled with a sudden credit squeeze, suffocated several of these companies. Their more established peers that did not tie their business models to such steep growth expectations have performed much more resiliently during this period.

This state of affairs has left development finance institutions (DFIs), such as the Industrial Development Corporation (IDC), in a conundrum. With limited resources at their disposal, do they permit the erosion of transformational gains by allowing the markets to take their course, or do they step in and bail out companies without a guarantee that such support will bear fruit? According to Mondi, the crisis has forced DFIs to think in a much more concentrated way about the nature and desired impact of BEE transactions. This has resulted in the development of a set of assistance criteria to ensure that bridging finance is extended to struggling but deserving companies, as opposed to those that would not have been financially viable even in the absence of challenging conditions.

Since the IDC conceives of empowerment in a holistic way, the imperative for ownership should not outweigh other priority areas, such as job creation, rural development, urban renewal, poverty alleviation, and skills and management development. In the light of this, entrepreneurial skill and the ability to expand the economic cake will become increasingly decisive for future funding.

In the final article of this chapter, Adam Habib reflects on the implications of these challenging times for questions of influence, governance and decision-making. He argues that in an unequal and polarised society, with as many divergent interests as ours, social pacts offer an inclusive elite bargaining model that has the potential to foster trust and to

manage expectations of key social stakeholders.

According to Habib, the governance style of the Mbeki administration effectively sidelined the ANC's main alliance partners to the left. While several attempts were made during his tenure, particularly around elections, to foster stronger relationships, distrust and the spectre of unbalanced influence stood in the way of a more co-operative working agenda. Adding to this lack of trust was the impression within the left that big business had privileged access to the offices of the then president.

Habib contends that conditions have changed significantly, and that the present juncture offers real opportunities for the forging of a more cohesive compact. The Zuma administration is considerably more representative of the full spectrum of the alliance and, while contestation for influence and policy at this early stage appears to be fierce, it is undeniable that a definite shift in influence has occurred towards the left. From a more macro perspective, it is also evident that the global economic crisis has weakened the prescriptive power of multinational corporations and, as a result, has enhanced the leverage of states and national political elites. Cumulatively, both have contributed to a context where the views of different actors (state, labour, business, civil society) ought to hold more equal sway.

The existence of such structural conditions, however, does not guarantee their practical translation into more consultative pacts. Leadership will be critical in this regard and, in the light of the sacrifices that the poor continue to make, Habib suggests that this will have to entail a more forthright assessment of the demands and expectations of affluent South Africans. He concludes that it would be unfortunate, indeed, if the formation of such a pact were to fail, not as a result of structural constraints, but due to lack of the courage to be more assertive in this regard.

## Chapter 2: The labour market

Structural unemployment poses one of the most complex challenges to the development of a more equitable South African society. While some gains were made in recent years to push employment figures up and unemployment down, consecutive increases in the official unemployment rate during the first three quarters of the year represent a significant setback in this regard.

In the first article of this chapter, Dieter von Fintel and Rulof Burger review some of the major developments in the labour market during 2009 and dissect some of its more detailed trends. They contend that the implications of the economic downturn stretch beyond the immediate losses. For the labour market to recover and make further inroads

into the country's historically high unemployment levels, the economy will have to reabsorb the retrenched workers shed from the workforce during this period; at the same time, new opportunities for the longer-term unemployed will have to be created.

At the time of writing, levels of job destruction remain high, and particularly so for unskilled workers. In the authors' assessment, this negative trajectory may not have reached its lowest point yet. Job creation remains sluggish, and things may get worse before they get better. Employers will remain cautious in their decisions to employ workers as long as uncertainty continues about the pace and sustainability of the economic recovery. Such hesitancy may be reinforced by relatively high wage demands during 2009, as well as continued labour market rigidity.

Von Fintel and Burger suggest that interventions such as the R2.4 billion National Job Fund may have an important role to play in slowing down the pace at which dismissals have been taking place. They do, however, express their concern that longer-term unemployment may continue to grow if the reabsorption of those who have lost their jobs does not accelerate. As such, more varied approaches will be required to contain the destructive impact of slow or negative growth on the labour market.

Moreover, the two writers caution against the increased marginalisation of those unskilled workers who find themselves outside the labour market. At a time of substantial material insecurity, high wage demands by labour unions could result in the further isolation of those who desperately need to enter the market. According to them, this reality will demand that more policy emphasis is placed on the fundamental issues, such as skills development for outsiders, that face the labour market. They contend that while the immediate response to the crisis has been appropriate, it offers little in terms of halting the growing number of outsiders excluded from the labour market. For as long as this happens, the country will have to rely on non-labour market solutions, such as pensions and social grants, to alleviate poverty.

Anna McCord and Charles Meth's contribution investigates the significance of the role of the Expanded Public Works Programme (EPWP) in achieving the government's stated objective of halving poverty by 2014. They present recent modelling of the labour market to inform an assessment as to whether there is any likelihood of the unemployment-halving goal being achieved by its target date.

The EPWP, the second phase of which was launched earlier in 2009, has been the official policy response of the ANC government to the plight of the poor who do not qualify

for social assistance. McCord and Meth contend that the structure of the programme has not been particularly successful. In terms of their analysis, it has excluded the majority of the working-age poor, and its impact, even for the unemployed who have participated in the programme, will only be temporary.

They find that in all likelihood the target of halving poverty by 2014 will not be met, and that the EPWP will not make a significant contribution towards improving prospects in this regard. They cite the short duration and single episodes of employment, limited training opportunities, the questionable impact of the assets created through community development, and the lack of integration with other developmental activities as the major considerations supporting their claims. Should Phase 2 of the EPWP deliver on its promise of millions of 'work opportunities', it will provide temporary relief; but, according to McCord and Meth, for a project like this to be successful it needs to be underpinned by a large-scale employment guarantee scheme (EGS).

The authors see the Presidency's recently launched Community Work Programme (CWP), which has been billed as a complement to the EPWP, as a positive development. The CWP has been piloted successfully at community level and, if scaled up to national level, could make a significant dent in unemployment and poverty. Should this occur, the CWP would essentially equate to an EGS. However, far more debate is required about its modalities, given the potential costs and resultant controversy that it might elicit.

In the final contribution to this chapter, Sakhela Buhlungu offers an analysis of COSATU's strength and influence during a period where slow and negative growth has had a detrimental impact on its membership.

He finds that the trade union federation continues to wield significant influence over South African society, regardless of its declining membership. Such influence, he contends, is derived largely from its close relationship with the ANC, and far outstrips the persuasive power of most of its peers in other developing countries.

Nevertheless, despite its growing clout in the sphere of national policy-making, it is increasingly beset by organisational weaknesses, which potentially diminish its longer-term capacity to make telling contributions. The democratic political environment, Buhlungu contends, has increased options for mobilisation and, consequently, political influence. Yet, the rapid expansion of membership numbers after democratisation also contributed to a loss of organisational focus. As a result, tensions are emerging in the federation between those who prioritise political influence and those who believe that the federation's sustainability will

hinge mainly on its organisational cohesiveness.

According to Buhlungu, the economic downturn may provide compelling evidence in favour of the latter position. As COSATU's membership numbers decrease as a result of the downturn, it will have to rely increasingly on its organisational power to defend its positions in the public policy arena.

### Chapter 3: Education and skills

Although universal access has been almost fully achieved in the South African schooling system, the quality of its outputs remains a source of grave concern. Consecutive editions of this publication have highlighted the varied challenges in this regard. The eradication of poverty and inequality remains one of the country's central challenges, and in an increasingly skills-biased economy, proper education provides the only avenue to employment and the prospect of an improvement in life chances.

In their opening article of the Education and Skills chapter, Steven Taylor and Derek Yu place the impact of socio-economic status on educational outputs under the magnifying glass and ask whether the South African education system provides learners from marginalised backgrounds with the opportunity to rise above their circumstances. According to the two authors, the answer to this question is of critical importance to the country's transformation agenda, because it provides an indication as to whether the school system can be expected to transform existing patterns of inequality or merely to reproduce them.

Taylor and Yu show that the overall level of educational achievement of South African children has reached crisis proportions. As is so often the case, the poor are bearing the brunt, which is manifested in wide discrepancies in educational achievement between different socio-economic categories. They conclude that by international standards the impact of socio-economic status on educational achievement is particularly severe in South Africa.

In their analysis of the 2006 Progress in International Reading Literacy Study data, they distinguish between two differently functioning influences on the outcomes of the system. Firstly, they highlight the role that socio-economic status generally plays in the equation; secondly, they find that the impact of socio-economic status becomes muted in traditionally black schools. In these generally under-resourced and under-performing institutions, socio-economic background seems to play much less of a roll. They attribute this largely to the role of peers, and refer to studies that have found that socio-economic mix of peers may be more instrumental than funding in positive educational

outcomes. If this argument is transposed on the South African context, it suggests that one of the key problems may be the concentration of poor learners in poorly performing institutions.

Their findings lead Taylor and Yu to the conclusion that if the education system is to contribute to transformation in the way one would hope, serious interventions are needed to improve functionality within the historically black and chronically under-performing section of South Africa's schools.

A poor primary and secondary education system inevitably has far-reaching implications for the outputs (and funding) of tertiary institutions. According to Nan Yeld, in her contribution to this chapter, recent studies have shown that only about 50 per cent of annual student intakes succeed in graduating within a reasonable time in almost all programmes at South African contact universities (that is, excluding distance education where graduation rates are understandably lower). When considered against the background of the country's dire skills shortages, this immediately has broader ramifications for the economy as a whole.

Yeld reflects on findings of the National Benchmark Test Project (NBTP), which was designed to provide higher education institutions with a better reflection of the challenges they face in terms of student proficiency in the basic competencies required for tertiary study. Launched in February 2009, the NBTP's aim is: to assess entry-level academic, quantitative and mathematical competency; to gauge the relationship between higher education entry-level requirements and school exit outcomes; to assist higher education institutions in the placement of students in appropriate curricular routes; and to provide guidance in terms of curriculum development.

In terms of all three measurement areas, less than half of participating first-year students showed an acceptable level of proficiency. Performance in mathematics was by far the most disconcerting, particularly in the light of the fact that students in the commerce, finance and engineering faculties did not perform much better than their peers in other faculties.

While disconcerting, these results present the first partial picture of the challenges that higher education institutions face; according to Yeld, once the NBTP becomes more widely adopted, it will allow these institutions to be better prepared to provide support for new entrants. Ultimately, it should also help in improving graduation rates.

In addition, the richness of the findings yielded by the tests ought to provide useful diagnostic information for schooling. While the project was developed to focus on the needs of

higher education institutions, Yeld believes that it can be of assistance to the secondary sector in assisting with curriculum planning and the setting of appropriate standards.

The unsatisfactory performance of the schooling system and its spill-over effects on the tertiary sector raise pertinent questions about the extent to which co-ordinated planning exists to improve both the quality and quantity of the country's human resources. In 2001, the government adopted its first human resource development (HRD) strategy under the title 'Human Resources Development Strategy for South Africa: A nation at work for a better life'. The strategy failed to gain traction, and in 2005 the Department of Education was mandated to revise it. In 2006, the Joint Initiative on Priority Skills Acquisition (JIPSA) was launched, not as a replacement for the existing HRD strategy, but to prioritise the acquisition of skills urgently needed by the economy. Some have argued, however, that the ineffectiveness of the 2001 HRD strategy gave impetus to JIPSA's creation and that, as a result, the latter lost its momentum, while JIPSA continued to receive substantial government backing.

In December 2008, a revised version of the HRD strategy was released for public comment. This was adopted in early 2009 by the Mbeki administration, but was sent back for further revision by the new Zuma administration after the elections. Given the new configuration of the government, particularly as it relates to the splitting of the education department into two entities and the creation of two new ministries in the Presidency, dealing with planning and monitoring and evaluation, respectively, the need for revision became inevitable.

In the final article of this chapter, Renee Grawitzky looks at the revised strategy in its current draft form and highlights some of its most obvious strengths and weaknesses. According to Grawitzky, the 2001 strategy struggled to make an impact, because little monitoring and evaluation was conducted under its auspices and co-ordinating efforts to collect and use data for planning in education and training were argely absent. A decisive additional shortcoming was that there were no structures in place to facilitate integrated planning, co-ordination and reporting on the strategy. As a result, little capacity existed to address short-term demands for the supply of priority skills.

In regard to the latter, the new draft version of the strategy states that it has incorporated some of the critical lessons from the JIPSA experience. An important component of JIPSA that has made its way into the new strategy document is its consultative nature, reflected in the composition of the HRD Council, which makes provision for the use of outside expertise.

Grawitzky, however, notes the absence of a significant structural feature in the current document – a direct link to the Cabinet, which JIPSA had through the office of the deputy president. This, she believes, may impact on the HRD Council's ability to act in a responsive manner. She suggests that this shortcoming may be addressed in the revised document by looking at potential linkages between the Council and the Presidency's new Economic Planning Commission.

Ultimately, the major test of the strategy will be whether it is able to deliver on a very broad mandate. Thus, it is imperative to ensure that the necessary structures exist and are capacitated to deliver on their mandates. Given the country's critical skills shortages, the government can no longer delay the revision of the current draft and the implementation of the eventual strategy.

#### **Chapter 4: Poverty and inequality**

In the introductory article of the Poverty and Inequality chapter, Murray Leibbrandt, Ingrid Woolard and Hayley McEwen present some of their latest research findings, which are based on comparative data from the 1993 Project for Statistics of Living Standards and Development (PSLSD) and the 2008 National Income Dynamics Study (NIDS).

Their research confirms that high aggregate inequality between these two measurement points has not declined over the past 15 years and that there are still entrenched factors in our economy that provide 'considerable inequality-generating momentum'. Future policy will have to focus much more narrowly on these structural impediments.

One of the impediments remains the continued racialised bias in the distribution of wealth. According to the authors, South Africa's long-run development trajectory has generated a prototypical model of inequality-perpetuating growth. Unfortunately, such inequities leave lasting legacies that are hard to reverse.

The current shape and character of the labour market – strong demand for skilled labour and massive oversupply of unskilled and semi-skilled workers – represents one of these legacies. As a result of the increasing skills bias in the economy, low levels of job creation in the lower categories of labour have effectively removed any poverty-alleviation impetus from the labour market. Consequently, increased state expenditure on social grants and pensions has had to fill this void and, consequently, has had a significant impact on the reduction of poverty levels since 1994.

During the period under investigation, it is not only inter-group inequality that has expanded rapidly; intra-group inequality levels have also grown significantly. While this

does not mean that the country's 'racial footprint' will disappear overnight, its demographic implications will be profound. When the exponential growth of inequality levels within the black African component of the population is viewed in combination with this group's dominance in terms of population share, it can be assumed that the material attributes of this group will exert growing influence over aggregate inequality and poverty trends.

This, the authors contend, implies that 'a policy focus on race-based redistribution will become increasingly limited in the future as the foundation for further broad-based social development'.

In his contribution on the government's search for a comprehensive South African anti-poverty strategy, Vusi Gumede articulates the need for an approach that spans the broad range of interactions between the different structural and temporal variables that impact on poverty levels.

His article sheds light on the processes of the past two years that have contributed to the strategy in its current draft form, and outlines some of the conceptual and practical considerations that had to be taken into account in its development. Consultation, Gumede notes, has been one of the hallmarks of the process thus far and, while it was at times felt that too much discussion might be delaying implementation, some critical insights were gained during conversations with key stakeholders.

In its current form, the strategy is based on nine key pillars: basic income security; basic services; social inclusion initiatives; human resources development; the creation of economic opportunities; broader access to assets; the improvement of healthcare; environmental sustainability; and improved governance. The strategy remains a work in progress and, at the time of publication, it is still the subject of broad consultation processes with various stakeholders.

According to Gumede, the recommendations and insights gained from these interactions have not been taken lightly. The government has been looking towards social partners to assist, through effective partnerships, with the sharpening of its implementation plan, as well as the refinement of the linkages between the strategy's nine pillars. The author believes that these elements will be critical to the implementation of the strategy. For its part, it is important for the state to consider how it would scale up its capacity for implementation, and to ensure that this is done in unison. In this regard, Gumede believes that state cohesion will be the decisive factor in the successful implementation of the strategy.

Rural development, which has enjoyed particular prominence in the Presidency's draft Anti-Poverty Strategy,

constitutes the focus of the final article in this year's Audit by Andries du Toit. Du Toit locates his discussion within the growing realisation that structural marginalisation will preclude certain sectors of South African society from obtaining prosperity, regardless of whether the economy grows or not. It is from this perspective that he examines the significance of rural development and explores the ways in which structural marginalisation can be challenged by means of agriculture and agrarian policy.

His article begins with the frank assessment that land reform policy has largely failed. It has not been able to meet its targets for distribution and, consequently, most black farmers remain poor and marginalised. Du Toit contends that much of this can be attributed to the untested assumptions that have informed the post-apartheid state's agrarian vision. He expands on this by pointing out how the state's vision has been premised on unrealistic and mistaken beliefs about the likely consequences and impacts of 'inclusion' and 'integration' into commercial markets. By means of examples in two interrelated rural contexts – one taking stock of jobless de-agrarianisation in the former bantustan areas of the Eastern Cape, and the other considering small farmers in commercial commodity chains – he underlines the importance of not only linking poor people to markets, but also of ensuring that the terms of such linkages make for viable commercial ventures.

In conclusion, Du Toit presents a number of proposals in terms of future engagement with the question of agrarian reform. Firstly, he asserts that policy should not be informed disproportionately by narrow ideological commitments to commercialisation. This is underlined by a recent return to support for the idea that subsistence food production should be valued and supported for its contribution to social protection. Secondly, he proposes that much greater emphasis should be placed on an appreciation of the downstream links that connect small farmers to markets (as well as the power relations involved in these interactions). According to Du Toit, insufficient probing questions have been asked about downstream commodity chains and the influence that supermarkets exert over their functioning. This is an under-explored area, which he believes requires much closer investigation.

## RECESSION AND RECOVERY

While this volume cannot claim to provide an exhaustive overview of all matters relating to our four focus areas over the past 12 months, its compilation was informed by a desire to single out those issues that could provide key pointers to

the broader state of South Africa's economic transformation in one of the most challenging years since democratisation. As its theme suggests, the publication attempts to take stock of the setbacks that the country has experienced during this period, but it also seeks to look beyond these and to ask pertinent questions about the prospects for recovery and the challenges that we will have to prepare ourselves for in this regard. As in previous years, the Audit's central emphasis remains to provide an uncompromising, authoritative annual analysis of the state of socio-economic transformation by some of the country's leading and emerging thinkers. The calibre of our contributors and the critical insights they have presented in this edition build on this reputation.

Access to relevant and comparative developmental data has been a challenge that we have encountered increasingly in recent years. Since most of the relevant data pertaining to the year in review are not available at the time of publication,

we have (over the years) reflected data gathered in the year prior to publication, in order to ensure that we can account for a full year. This needs to be kept in mind when reviewing our generally positive scorecards in the publication, which, in the light of the economic downturn, may seem to reflect results that are counterintuitive. Yet, in spite of this approach, different measurement methodologies and the recalibration of standards in areas such as education continue to make relevant comparisons difficult to achieve. From next year onwards, the publication will embark on a new scorecard approach that will be more focused on contextualising our achievements within a broader global perspective.

It is our sincere hope that the insights contained in *Recession and Recovery* will contribute to informing and providing the groundwork for further debate around the themes that it highlights.

# Chapter one

## Governance and the economy

“Despite the optimistic outlook for the South African and global economies in the short term, there are concerns about the longer-term prognosis.”

<b>Scorecard</b>	Economic performance scorecard	3
<b>Analysis</b>	The impact of the global recession on the South African economy and the government's response <i>Azar Jammine</i>	4
<b>Analysis</b>	BEE is dead! Long live BEE! <i>Lumkile Mondli</i>	14
<b>Review</b>	Reflections on building a sustainable social pact: Business, labour and the state under Jacob Zuma <i>Adam Habib</i>	22

# overview

In the first article of this chapter, **Azar Jammie** takes stock of the health of the South African economy after one of its most challenging years since the country's political transition. He notes that an economic contraction in 2009 was inevitable, given the significant degree of dependence of the South African economy on demand in developed nations. Hard work to reduce the country's budget deficits over the past 15 years has placed the country in a better fiscal position than most of its peers, but Jammie is less optimistic that this increased scope to borrow will be matched by readily available finances to support investment in the economy. While he does not regard current ideological discussion about location of economic policy as unimportant, Jammie expresses the hope that a fixation with the question of whether policy should shift more to the left does not detract from getting basic things like education right.

**Lumkile Mondli** shows that broad-based black economic empowerment (BBBEE) has suffered significant setbacks during the economic downturn. He outlines some of the losses that have been incurred, and points out that BBBEE companies that were created after 2004 have been particularly vulnerable to effects of the downturn. This, he contends, can be ascribed to the fact that most of these transactions were financed by equity at a time when returns were high and, as a consequence, business models were heavily reliant on high growth in company share prices to ensure cash flow. However, during the recession growth plummeted and the costs of borrowed money increased. This state of affairs has left development finance institutions (DFIs), such as

the Industrial Development Corporation (IDC), with the dilemma of how to keep the transformative imperative of BBBEE alive without investing money in ventures that are not sure to bring a return. According to Mondli, this crisis has forced DFIs to think in a much more concentrated way about the nature and desired impact of BEE transactions. Given the IDC's own funding constraints, the criteria for feasible business models, and the entrepreneurial skill to expand the economic cake, will become increasingly decisive for future support and bridging funding.

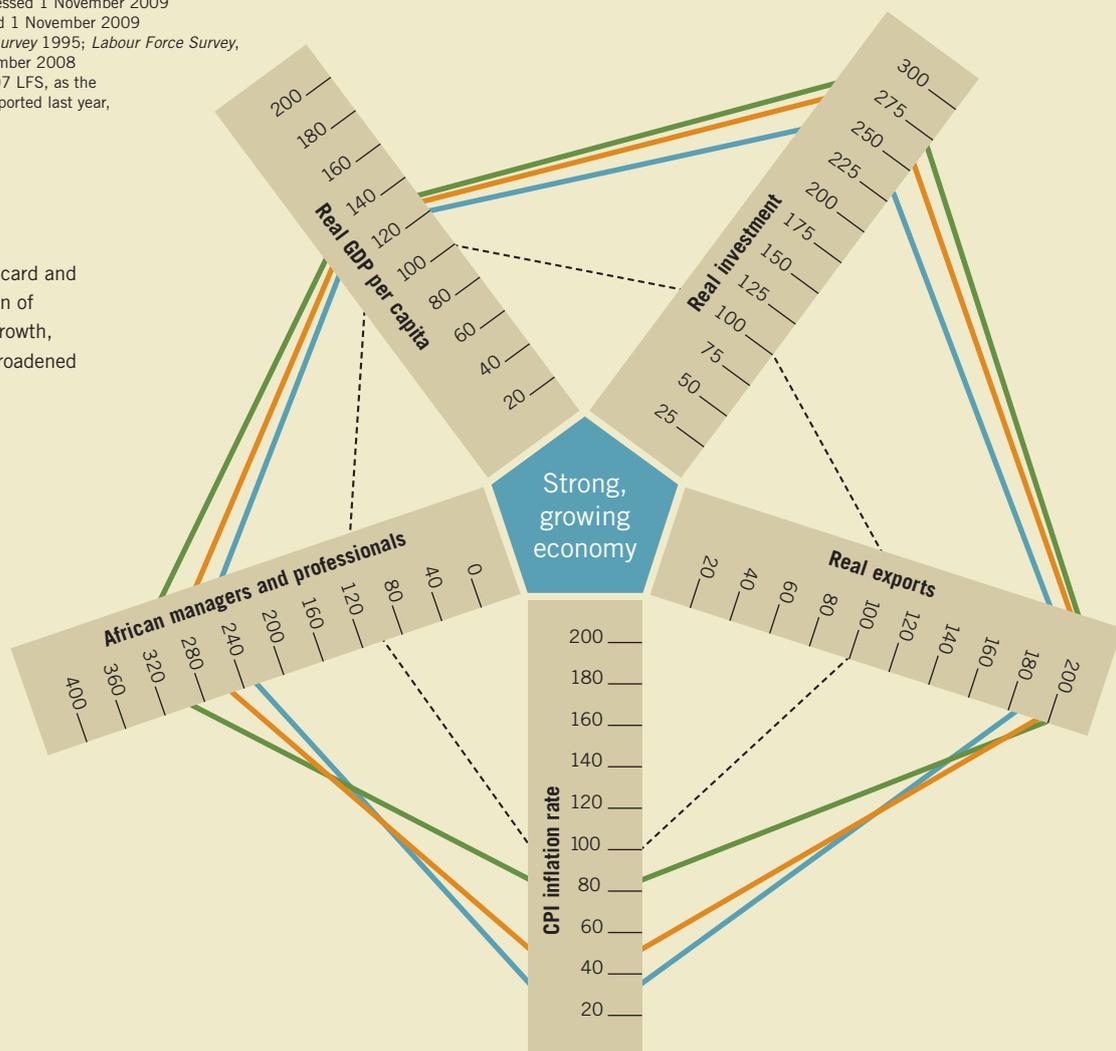
In the final article to this chapter, **Adam Habib** reflects on the implications of these challenging times for questions of influence, governance and decision-making. He argues that in an unequal and polarised society, with as many divergent interests as ours, social pacts offer an inclusive elite bargaining model that has the potential to foster trust and to manage the expectations of key social stakeholders. While conditions for such a pact existed in the early years after the political transition, several opportunities were squandered during the Mbeki administration. Circumstances have changed, however, with a new left-leaning Zuma administration and a corporate sector whose prescriptive power has diminished significantly since the global economic crisis struck. Nevertheless, the existence of these structural conditions does not guarantee their practical translation into more consultative pacts. Habib suggests that leadership will be critical in this regard and, in the light of the sacrifices that the poor continue to make, he suggests that this will have to entail a moderation in the demands and expectations of more affluent South Africans.

# Economic performance scorecard

Transformation goal						
A stable, broad-based economy, growing at a rate that creates wealth, given population growth						
Desired outcome	Indicator	Status 1990–1994	Status 2007	Status 2008	Status 2009	Positive development
Growth	Real GDP per capita <sup>1</sup>	R20 127 (Ave. 1992–1994)	R24 498 (2006)	R25 444 (2007)	R25 897 (2008)	↑
Stability	CPI inflation rate <sup>2</sup>	9.3% (1994)	4.6% (2006)	7.2% (2007)	11.5% (2008)	↓
Ability to access markets	Real exports <sup>1</sup>	R170 602m (Ave. 1992–1994)	R313 454m (2006)	R337 013m (2007)	R342 899m (2008)	↑
Broadened base	Managers and professionals who are African <sup>3</sup>	216 772 (1995)	490 612 (2006)	549 621* (2007)	651 864 (2008)	↑
Investment	Real aggregate investment <sup>1</sup>	R102 784m (Ave. 1992–1994)	R238 775m (2006)	R262 657m (2007)	R278 334m (2008)	↑

1. Source: <www.reservebank.co.za> accessed 1 November 2009  
 2. Source: <www.statssa.gov.za> accessed 1 November 2009  
 3. Source: Sata SA, *October Household Survey 1995; Labour Force Survey*, September 2006, March 2007, September 2008  
 Note: \* This figure is from the March 2007 LFS, as the September 2007 LFS figure, which we reported last year, was implausibly high

The Economic Performance Scorecard and Star provide a snapshot impression of changes in the key indicators of growth, stability, competitiveness and a broadened base for the economy.



**INTERPRETATION GUIDE**

Desired direction of change

--- Score early 1990s (=100)  
 — Status 2007  
 — Status 2008  
 — Status 2009

# analysis

## THE IMPACT OF THE GLOBAL RECESSION ON THE SOUTH AFRICAN ECONOMY AND THE GOVERNMENT'S RESPONSE

Azar Jammine

### Correlation between the South African and global economies reinforced

Arguably, the global recession of the past year has reinforced the incredibly close correlation that has developed between the South African economy and international economic trends. Prior to the early-to-mid-1990s, which coincided with the political transformation in South Africa from an apartheid regime to the country's first fully democratically elected government, such a correlation was not at all evident. If anything, there were times, such as in 1981, when the South African economy boomed on the back of a spiralling gold price, while the world economy was in recession. Conversely, in the mid-1980s, when the global economy started a recovery that blossomed into a prolonged period of economic growth, South Africa's economy was plunged into recession on the back of a debt standstill imposed by the international financial community because of the country's apartheid policies. However, this all changed in the 1990s with the dismantling of economic sanctions and the re-entry of South Africa into the mainstream of global economic activity, at a time when globalisation and financial integration, on the back of a boom in information technology, was taking over.

Since about 1992, the correlation between global economic developments and the South African economy has been extremely high. Differences between the growth rates of the world economy reported by the International Monetary Fund (IMF) and those of the South African economy have been negligible. Interestingly, and probably not coincidentally, South Africa's economic growth has come to exceed that of the developed economies, but has fallen behind that of developing economies, so that its performance has mirrored that of the overall world economy. It is apparent that world economic growth drives the demand for raw materials and processed materials, the extraction and production of which form the backbone of the South African economy. Thus, when global demand improves, so too do South Africa's exports, both in terms of rising commodity prices and in

terms of increased volume demand. In turn, the foreign exchange provided by exports enables the economy to afford to import more readily to accommodate domestic demand for a host of goods and services, and the economy is thus able to grow faster more generally. Conversely, as was seen during the latter part of last year, when global demand plunges, so too do the fortunes of South Africa's mining and manufacturing sectors which are so dependent upon exporting to the rest of the world. Hopefully, signs of a nascent global economic recovery in recent months are also beginning to filter through into generating a bottoming out in the domestic mining and manufacturing sectors.

### Mining and manufacturing bear the brunt

Nonetheless, there has been a perception that the South African economy has followed the global economic downturn with a lag. Some suggest that the effects of global recession have only begun hitting home on domestic economic activity in recent months, whereas the effects were felt harshly already in other countries late in 2008 and the first quarter of 2009. This is true only in part.

Since about 1992, the correlation between global economic developments and the South African economy has been extremely high.

If one examines the annualised quarter-on-quarter seasonally adjusted growth rates of various economies, one recognises that the overall growth of the South African economy, in fact, has moved very much in tandem with those of the USA, Eurozone, China and Japan. In all cases, the nadir of economic growth was reached in the first quarter of 2009 and was followed by a substantial improvement in growth in the second quarter. This is precisely what happened in the case of the South African economy, with annualised growth plunging into negative territory in the fourth quarter of 2008, falling sharply further to -6.4 per cent in the first quarter of 2009, only to become significantly less negative, at -3.0 per cent, in the second quarter. Of course, even the second-quarter growth was still substantially negative, but so too was this the case in economies such as the USA, UK and Spain. Interestingly, economic growth in France, Germany and Japan managed to turn positive in the second quarter. One submits an admittedly as yet unproven hypothesis that the relatively much lower build-up of household debt levels in the latter three countries compared with the USA, UK, Spain and South Africa meant that deleveraging in France, Germany

and Japan was far less of a drag on their economic recoveries in the second quarter. The corollary to draw from this is that countries such as South Africa and the USA, where household indebtedness has increased sharply over the past two decades, are likely to find it that much more difficult to lift their growth rates in the aftermath of recession. Households are likely to be under continuous pressure to wind down their debt levels rather than to incur renewed debt to fund expenditure in the future.

### The impact of global recession spreads throughout the economy

Despite the fact that the overall growth of the South African economy continues to be highly correlated with that of the rest of the world, the common perception has been that the domestic economy has only begun to feel the full impact of recession in recent months. The reason is that whereas the initial impact was felt immediately by the export-oriented sectors, it has only been over time that the damage inflicted on the likes of mining and manufacturing has filtered through into the remainder of the economy. While these sectors have seen significantly improved annualised growth in the second quarter, which helped to drive overall GDP growth upward, other sectors, such as retail, tourism, financial services and personal services have experienced accelerated weakness during the same period.

The increased spate of job losses in the first half of 2009, which amounted to 475 000 according to the *Quarterly Labour Force Survey*, has induced increased caution both in business and amongst households, resulting in an increased tendency to save and a reduced proclivity to spend. Whereas industries, such as metal processing and automotive products, experienced the full brunt of the initial phases of the global downturn, it was industries such as clothing and food, that began to suffer in the second quarter of 2009. Large retail groups such as Pick n Pay, Woolworths and Shoprite, which had continued to experience positive volume growth through to the beginning of this year, have only recently begun to see year-on-year declines in sales.

In respect of the construction sector, it was the residential building industry that witnessed a sharp downturn in plans (in tandem with international trends) during the initial stages of the downturn, and it was only more recently that the downturn in the non-residential segment for offices, shopping centres, and warehouses became more apparent.

### Tightness of credit extension exacerbates the recession

However, there have been other important influences that have resulted in the South African economy arguably suffering a deeper recession than originally anticipated when the global financial meltdown first erupted. At the time, it was believed that the credit crunch being experienced in developed economies would not be anywhere near as severe in the South African economy. After all, South Africa's top four banks, which account for almost 90 per cent of banking assets, had been nowhere near as exposed to toxic assets and the sub-prime crisis as banks overseas. Their capital asset ratios were far healthier. It was assumed that they would be far less reluctant to lend out money than their international counterparts. While this may have been the case initially, the domestic credit crunch turned out to be almost as severe as that experienced globally. Some of the decline in credit extension experienced this year has been related less to a reluctance to borrow than to reticence on the part of the country's banks to advance credit to needy customers. Requirements for providing funding were tightened up dramatically, even for many soundly run small businesses, which had become accustomed to accessing banking finance simply to accommodate their daily cash-flow requirements. Such credit lines were suddenly denied to them. The draconian swing from arguably indiscriminate lending practices a few years ago to a massive tightening up of credit requirements over the past year appears to have exacerbated the depth of the domestic downturn.

### Rand strength jeopardises export performance

Another development that has impaired the South African economy's ability to withstand the full effects of global recession is that the rand has come to be seen as a major vehicle through which international investors have been able to express their risk aversion, and this has driven the currency upwards to uncompetitive levels.

During the initial phases of the global economic downturn late last year, together with the collapse of world equity markets, risk aversion towards emerging markets increased enormously. The manner in which this was expressed was through large-scale portfolio outflows from South Africa and a sell-off in the rand's exchange rate (see Table 1.1.1). Conversely, since March this year, renewed confidence globally regarding the likelihood of an economic recovery has resulted in the assumption of an increased risk appetite. Funds have flowed back into South Africa's financial markets with a vengeance and the rand's value has been driven up dramatically. In contrast with net portfolio outflows of

Table 1.1.1 Market exchange rates, percentage change against US dollar

4 Jan–30 Dec 2006		3 Jan–30 Dec 2007		2 Jan–30 Dec 2008		30 Dec 2008–9 Oct 2009	
Czech Republic	15.1	Brazil	20.3	Japan	22.1	Brazil	36.4
Thailand	12.7	Turkey	19.7	China	6.4	Australia	27.6
Britain	11.6	Poland	18.5	Singapore	0.0	South Africa	26.6
Euro	9.2	Thailand	17.6	Taiwan	-1.8	Chile	13.5
Hungary	8.5	Czech Republic	14.9	Euro	-2.9	Britain	10.2
Poland	8.5	Euro	11.0	Thailand	-4.0	South Korea	8.1
Brazil	8.2	Australia	10.6	Czech Republic	-4.3	Czech Republic	8.0
Singapore	7.4	Hungary	10.0	Hungary	-8.0	Thailand	4.9
South Korea	6.2	Chile	8.1	Argentina	-8.4	Turkey	3.3
Australia	5.6	China	6.8	Poland	-15.2	Hungary	3.3
China	3.4	Japan	6.5	Mexico	-19.3	Euro	3.0
Argentina	-1.0	Singapore	5.8	Australia	-20.8	Taiwan	2.7
Taiwan	-1.5	Britain	1.2	Chile	-21.2	Singapore	2.6
Mexico	-1.8	Taiwan	-0.6	Turkey	-23.0	Poland	1.8
Japan	-2.6	Mexico	-1.1	South Korea	-25.9	Japan	1.0
Chile	-3.3	South Korea	-1.1	Britain	-26.1	China	0.3
Turkey	-6.0	Argentina	-2.9	Brazil	-26.3	Mexico	-0.5
South Africa	-12.7	South Africa	-3.2	South Africa	-28.1	Argentina	-10.4

Source: <http://www.bloomberg.com/invest/calculators/currency.html>

R35 billion last year, net inflows this year have amounted to some R80 billion by mid-2009. After plunging in October last year to a low point of R11.85 to the dollar and experiencing a repetition of a sell-off in the early part of this year to reach a low point of R10.70 in March, the rand has appreciated by almost 30 per cent against the greenback to levels below R7.50. The ability of South African exporters to reap the full benefits of global economic recovery has been dealt a severe blow as a consequence.

### Good portents for short-term recovery

Fortunately, from a short-term perspective, the outlook for the global economy and, by virtue of this, the South African economy, looks promising. The maintenance of interest rates at historically low levels close to zero in leading industrialised nations for almost a year now, coupled with unprecedented, massive injections of liquidity into the global economy, supplemented by huge fiscal stimulus programmes incorporating tax cuts and assistance to toxic banks, as well as huge amounts of infrastructural investment, are beginning to yield fruit. In this regard, one

**From a short-term perspective, the outlook for the global economy and, by virtue of this, the South African economy, looks promising.**

should also not underestimate the beneficial impact that the US\$586 billion stimulus package in China is having on the demand for commodities. As a consequence, commodity prices have rebounded quite strongly along with equity markets since March. This has helped to resurrect demand in many emerging markets. South Africa is bound to follow suit. After revising its forecasts for 2009 and 2010 for the world economy sharply downwards in September 2008 (from 3.0 per cent and 4.2 per cent respectively, to -1.3 per cent and 1.9 per cent respectively in April 2009), the IMF has revised its two most recent forecasts for world economic growth upwards. The October 2009 forecast is now looking for global growth this year of -1.1 per cent and for next year a positive 3.1 per cent.

In line with these forecasts, the IMF had downgraded its

September 2008 forecast for South Africa's GDP growth from 3.3 per cent and 4.2 per cent for 2009 and 2010, to -0.3 per cent and 1.9 per cent, respectively, in April. However, unlike the global forecast, its forecast for the South African economy has been revised further downwards most recently, to -2.2 per cent for 2009 and a positive 1.7 per cent for 2010. Even though the forecasts for growth in the South African economy have not received the same recent upward revision as those for the world economy, the fact remains that in both cases South Africa's growth is projected to improve over the coming year in tandem with the rest of the world. The huge magnitude of fiscal and monetary stimulus globally, led by China, together with the lagged effects of a 5 per cent reduction in interest rates domestically between December 2008 and August 2009, should ensure a meaningful improvement in the year ahead. In addition, the country stands to enjoy the fortune of hosting the Soccer World Cup next year, offering its economy a unique booster. Economic growth for 2010 could well turn out to be higher than the 1.7 per cent forecast by the IMF, precisely because one suspects that the IMF has not fully incorporated into its forecast the potential benefits of hosting this international sporting highlight.

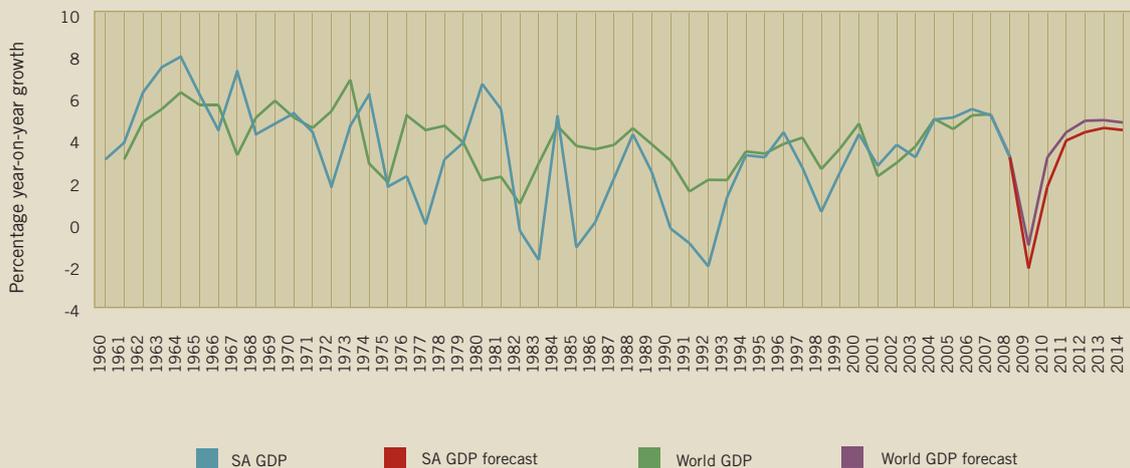
### Sustainability of global economy in question

Despite the optimistic outlook for the South African and global economies in the short term, there are concerns about the longer-term prognosis. Most importantly, the massive injection of liquidity into the world economy to prevent the recession from being much deeper could result in the overheating of financial and commodity markets once again. Furthermore, the huge public sector deficits being incurred by most leading economies may have to draw out a payback in years to come, either in the form of higher taxes or in the form of increased inflation due to the monetisation of such debt. Governments might well find that the scope for increasing taxes is limited and, as a consequence, that the easiest means to reduce debts incurred is by way of the money printing press. In such an eventuality, interest rates globally could rise quite sharply, bringing about a renewed severe downturn in asset prices and overall economic activity. South Africa would not remain unscathed, although, ironically, the resultant probability of a sharp depreciation of the rand might help to cushion the South African economy from the full effects of such a renewed downturn.

### Public infrastructural investment as a booster to domestic economic prospects

One might wish to question what the government's response has been to the global economic crisis as a means

Figure 1.1.1: GDP growth over time



Source: IMF (2009)

of alleviating its adverse impact on the South African economy. It would appear as if the direct response has been limited to allowing the fiscal deficit between government revenue and expenditure to expand and embarking upon an unprecedented infrastructural investment programme, which officially is earmarked to see R787 billion being spent on public sector projects over the next five years. Aggressive increases in infrastructural spending have already been responsible for cushioning the domestic downturn to some extent. Projects such as the Gautrain and the upgrading of the country's urban transport networks, harbours and airports, together with the building of a number of new stadiums for the Soccer World Cup have been integral to the investment programme; so, too, has been the plan to build two new power stations over the next seven years as a means of increasing the electricity-generating capacity of the country and surrounding neighbouring states. Especially with regard to civil engineering investments, these have formed an important part of the public works initiatives aimed at creating new jobs, albeit temporary ones.

Increased public sector infrastructural investment remains one of the government's key economic successes of the past few years. The ratio of fixed investment to GDP has been increased from 15 per cent to 25 per cent (see Figure 1.1.2). In the longer run, an improvement in infrastructure ought to increase the economy's sustainable growth rate and enhance its provision of services.

### Savings shortage as a constraint to higher sustainable domestic growth

However, one of the key challenges with regard to such investment projects is finance. Sharp declines in household and business spending, together with falling asset prices over the past year, have eroded the growth in tax revenue. With half of the 2009/10 fiscal year complete at the time of writing, estimates vary between a shortfall of R60 billion and R80 billion in government revenue compared with original budgets. This implies that government borrowing will need to increase commensurately. Unfortunately, the country's savings rate is still languishing at around 17 per cent of GDP, well short of its investment rate (see Figure 1.1.2). Although the positive sentiment prevailing towards South Africa amongst international investors has enabled the National Treasury to issue some international bonds, there is still a grave concern that the government will not be able to fully fund its ambitious infrastructural programme. Already signs have appeared that certain public sector projects have been postponed in order to provide the breathing space required to raise the necessary funding. In

itself, these project postponements have allowed economic growth to decline by even more than anticipated. From a longer-term perspective, inability to undertake desired infrastructural investment is likely to limit the country's competitiveness and its ability to grow at a pace fast enough to reduce its endemic unemployment rate, currently officially situated at 24.5 per cent.

### The government's minimal direct response to the crisis

As stated by President Zuma in his inaugural State of the Nation address in June 2009, it is the government's intention to generate 500 000 job opportunities by the end of the year, and a further 3.5 million jobs by the end of 2013. Given the constraints on financing of infrastructural investment projects, as well as the potential for global economic growth to be much weaker in the longer term than what has been experienced over the past decade, the attainment of these projections appears to be a tall order. In response to concerns regarding significant job losses, the government announced a R2.4 billion assistance package in August. It consists of a combination of initiatives aimed at supporting certain particularly hard-hit industries, such as the automotive industry, but also includes the notion of subsidising companies to embark upon skills development for those workers who might otherwise have been retrenched. Thus far, it is difficult to measure the success of these initiatives. However, it is important to put the magnitude of

Figure 1.1.2: Gross fixed investment as a percentage of GDP against gross savings as a percentage of GDP



Source: SARB (2009)

this assistance package into perspective. It amounts to no more than 0.3 per cent of a R740 billion overall expenditure budget. It can hardly be regarded, therefore, as a major initiative. Clearly, unlike the USA and British governments, the South African government does not feel at liberty to incur massive fiscal deficits. As it is, the actual fiscal deficit for 2009/10 is now being forecast to come out at 7.6 per cent of GDP, compared with the original budget deficit of 3.8 per cent. The government probably feels it cannot rely on access to finance of the magnitude available to the governments of leading industrialised countries. This may not be a bad thing, as it implies a forced form of fiscal discipline, which in the long term should help to limit the increase in the public debt and the associated interest burden.

### South Africa's fiscal situation currently healthy

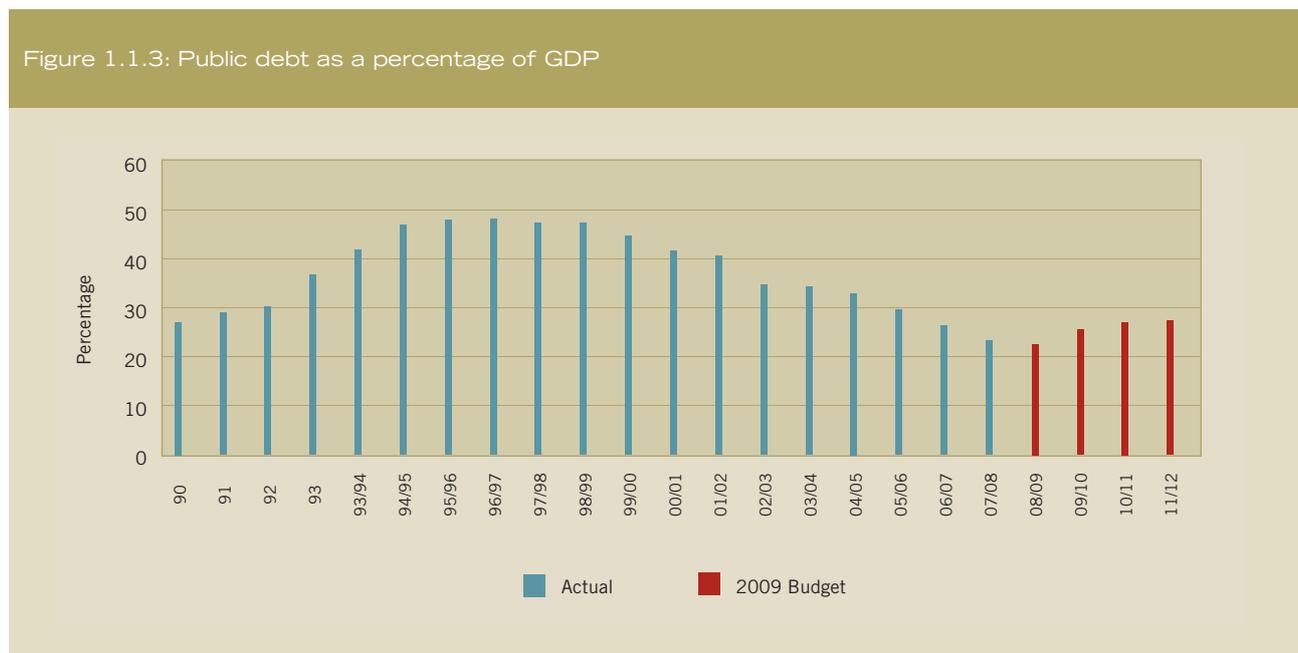
In this regard, it is important to highlight the fact that the South African government finds itself in a far healthier long-term fiscal situation than its counterparts abroad. A decade and a half of deficit reductions, which formed part of the Growth, Employment and Redistribution (GEAR) macroeconomic strategy, succeeded in reducing the public debt to GDP ratio from 48 per cent a decade ago, to 23 per cent currently (see Figure 1.1.3). By any standards, the latter figure is extremely low. It suggests that the capacity of the government to borrow is considerable. Similarly, the foreign

## The South African government finds itself in a far healthier long-term fiscal situation than its counterparts abroad.

debt to GDP ratio, of 25 per cent, is also low by international standards. The problem is that even though the government might have considerable scope to raise its public debt levels, the finance with which to do so might not be available.

### Debate around the roll-out of social grants

The reduction in the government's debt-servicing burden, from 6.5 per cent of GDP a decade ago, to less than 3 per cent of GDP currently implies that the government now has some R80 to R90 billion more to play with than it used to have. Many of the savings on interest payments on government debt were used to expand the social security net for less privileged sections of the population. In the past decade, the number of recipients of social grants has increased from 2.9 million to 13.8 million. The bulk of this has been in the form of an increased roll-out of child support grants. Families without access to an employed family member have been able to receive R240 per month (currently) for every child under the age of 15. (Originally, the grant was only granted for children up to the age of 7 years). There has been



Source: National Treasury (2009); SARS (2009)

much controversy surrounding the merits of the prevalence of these social grants. On the one hand, critics argue that the funds could have been used more effectively if applied to infrastructural investment projects that would yield a return for many years to come rather than being consumed immediately. In addition, as a number of government officials have argued in recent years, the roll-out of social grants has reduced the incentive for people to uplift themselves through better education as a means of attaining employment that might generate an income and contribute to the economy. On the other hand, defenders of the social grants have argued that unemployment in South Africa is endemic and cannot be reduced in a hurry. Appropriate education and training is a long-term exercise, which will yield results only in the longer term. In the interim, in the absence of a social security system, the only way in which people can be prevented from starving is through direct handouts. In this way, high levels of inequality can be alleviated through direct government intervention.

There is a third, alternative, view that suggests that the form of social grants needs to be adapted. It is argued that a basic income grant, which would be issued to each and every individual and then taxed in line with that individual's income level, would reach a greater proportion of the unemployed. However, the problem with such a scheme is that it would be extremely costly to implement and administer. Be that as it may, the debate surrounding the merits of social grants and assistance is still very much in progress. It attracts further interest on account of the growing trade-off in an environment of limited funding between directing assistance to the poor by means of direct handouts, as opposed to taking the longer-term view of applying funds to development projects that would yield benefits to the poor over a longer period of time.

### High and growing levels of inequality

Unfortunately, South Africa remains one of the most unequal societies in the world. According to a study conducted by the Bureau for Market Research at the University of South Africa, 75 per cent of South Africa's population earns less than R4 000 per month, whereas almost 4 per cent earns more than R60 000 per month (BMR 2009). There is an undeniable theme underlying the high levels of unemployment, inequality and poverty, and that is the poor level of education and skills development within the broader section of the population. A high proportion of unemployment can be explained by the fact that those who are unemployed do not have the commensurate skills required by the market place to be employed. There is a fairly acute shortage of skills.

On the one hand, those sectors such as agriculture, mining and manufacturing that absorb a lot of relatively unskilled labour have been in long-term decline. On the other hand, the economy's fastest growth from a structural point of view has been taking place in the services sectors such as finance, telecommunications, transportation and business services more generally. The fact that there has been a shortage of skills amongst the more highly skilled professional and business communities, but an abundance of unskilled labour, in turn, contributes towards the former segment of society seeing its remuneration increasing relative to the latter. For example, the Bureau for Market Research study shows that income levels among those earning less than R4 000 per month hardly increased in recent years, whereas the income levels among those earning in excess of R60 000 per month increased at rates of between 25 and 50 per cent per annum. Obviously, bonuses and capital gains contributed towards the substantial increases in remuneration of the professional class. The resultant growth in inequality would appear to have exacerbated the crime rate. This has contributed towards a vicious circle of emigration of skilled persons, a rising shortage of skills within the economy and the resultant continuing growth in inequality.

### Pressure for a leftward shift in economic policy

Worsened by the global economic downturn, the combination of high unemployment and inequality is creating strains within the ruling administration regarding the direction that economic policy should take. Investors naturally have been questioning whether or not the change in the ruling administration, and Jacob Zuma's ascendance to the presidency, might usher in a leftward shift in economic policy in an attempt to assuage the growing frustration amongst the poor with growing levels of unemployment and inequality. This is derived from various statements made by officials in the ANC-COSATU-SACP tripartite alliance and from a logical analysis of the source of support for Zuma as president. For example, calls have been made for the nationalisation of mines as a means of limiting job destruction in the sector. There have also been calls for the abolition of inflation targeting in the belief that this will assist in boosting economic growth and job creation. The government itself has been touting the introduction of a national health insurance scheme to enable every member of the country's population to access funding for medical treatment. Besides, one of the cornerstones of the new president's popularity is that the majority of the population, which is relatively poor, frequently unemployed and uneducated, has identified with Zuma as its leader. Zuma is seen as having been a herd boy in his youth and compelled to leave school with no more

than a standard 4, but this did not stop him progressing to his current position. The corollary to be drawn is that Zuma's administration will be committed to helping to uplift the poor and uneducated. In turn, this might well require policies that are perceived to be socialist and in many ways anti-business. This perception finds further reinforcement in the fact that the primary political forces driving support for Zuma during his campaign to become president were COSATU and the SACP. Consequently, it is felt by analysts that the Zuma administration will need to pander to the wishes of these left-wing elements within the ruling tripartite alliance. Finally, the breakaway from the ANC by certain members of the party to form the new Congress of the People (COPE) party is perceived superficially as constituting a decision by elements of the business and intellectual elite of the party to distance themselves from the peasantry and working class.

However, the above analysis appears to be unduly simplistic. Even though a number of leading business figures may well have defected to COPE, large numbers still reside within the ANC. Many such businessmen still enjoy a relatively high profile within the organisation. They would certainly be reluctant to see the large wealth that they have accumulated over the past 15 years being eroded by economic policies that are anathema to the aspirations of domestic and international investors and which would risk resulting in large-scale disinvestment. Several political and business leaders have been involved in roadshows to reassure international investors that there will be no major change in economic policy under the new administration. Such leading figures within the organisation are only too aware of the dangers of the country being ostracised by the international investment community in such a way as to deprive the domestic economy of the kind of investment that is required to help promote social upliftment and the 'developmental state' to which the administration aspires.

### Uncertainty regarding economic functions of Cabinet ministries

The retort to this argument, which denies that there is a leftward shift in economic policy under way, is to question as to why, if this were not the case, prominent communists have been appointed by Zuma to the Cabinet in key business-oriented portfolios. Included in this regard are Pravin Gordhan as Minister of Finance, Rob Davies as Minister of Trade and Industry and most importantly, Ebrahim Patel as Minister of Economic Development, a newly created ministerial portfolio. These figures all have histories with strong socialist credentials. What is overlooked here is the broad strategy of President Zuma in the formation of the

new Cabinet. The new president deliberately enlarged the Cabinet from 48 to 62 members, going out of his way to include persons drawn from a wide variety of interests and affiliations. Zuma's objective has clearly been to give as broad a range of interest groups as possible voice within the Cabinet. The objective has been to absolve himself of the risk of accusations of lack of inclusivity, which was frequently identified as one of the key weaknesses of the former Mbeki regime. At the same time, it was conspicuous that Zuma appointed former Finance Minister Trevor Manuel, who had an extremely favourable image within the investment community, to the new post of Minister in the Presidency: National Planning Commission, directly answerable to the president himself.

Manuel's appointment, however, has been seen by the left-wing elements within the tripartite alliance as an attempt to keep a beady eye over the efficiency of the implementation of government objectives by other ministries. Their concern is that Manuel's appointment gives him a say over the running of the economics-oriented ministries alluded to above that are now headed up by socialist figures. In this way, it is argued, Zuma's administration is attempting to prevent interference of socialist ideology in the government's economic policies. The tension between the supporters of Manuel and his opponents is palpable. There has been a growing perception that the appointment of the above-mentioned communists to economics-oriented ministries was forced upon Zuma by COSATU and the SACP in return for the support that they had given him in the run-up to the Polokwane conference. Manuel's insinuation at the World Economic Forum in June to the effect that the business sector is cowardly in not standing up to the trade unions is seen as reflecting Manuel's frustration with the inability of counter-forces to resist the power of the union movement. Be that as it may, considerable uncertainty exists regarding the precise functions and powers of the various ministries in the economics cluster. Although it was resolved at an alliance summit in November that Manuel will head the government's proposed National Planning Commission (NPC), the Commission mandate and functions remain vague. At the same time, no concrete proposals have been put forward to detail what powers and functions are foreseen for the new Ministry of Economic Development, which purportedly is seen by the left as potentially the main driver of macroeconomic policy.

### Official rejection of populist policies

Interpretation of the response of the Zuma administration to suggestions that it is likely to adopt more populist policies presents a mixed picture at this stage and the jury would

appear to be undecided. The ANC and President Zuma himself have already made it quite clear that the nationalisation of the mines is not on the cards. The only suggestion in this regard is that the state might decide to set up its own mining company. However, the government is only too aware of criticism already levelled at it for the inefficiencies and relative failure of public corporations in recent times. Under such circumstances, the question is posed as to whether or not the government would be any more successful in running its own mining company than it has been in running the likes of SAA, Denel and Eskom. As far as the mooted national health insurance scheme goes, it is quite clear that the funding requirement for such a scheme is gigantic and would dwarf all other forms of expenditure if implemented in the manner currently suggested. Much research, debate and discussion with role players in both the public and private sectors is going to have to be undertaken before the configuration of such a scheme is finalised. This process could take several years.

With regard to inflation targeting, President Zuma arguably effected a masterstroke with his appointment of Gill Marcus as the new Reserve Bank Governor. Marcus is eminently qualified for such a position having served as Deputy Minister of Finance between 1996 and 1999, Deputy Governor of the Reserve Bank between 1999 and 2004 and Chairperson of leading commercial bank, ABSA, over the past three years. In addition, Marcus gained significant experience in the theoretical side of economics as an academic at one of the country's leading business schools in recent years. While Marcus undoubtedly possesses significant struggle credentials, one could hardly suggest that she would countenance a more populist approach towards monetary policy than her predecessor Tito Mboweni adopted. Certainly, there could be a slightly more flexible approach towards the implementation of monetary policy, in the sense that if there is some ambivalence about whether or not to cut interest rates at any particular time, she might be more amenable to such a move.

### Frustration with slow delivery

On reflection, Zuma can be criticised for raising the expectations of the unemployed masses by promising to create millions of job opportunities over the next few years. Indeed, one might suggest that the lack of success in fulfilling promises to the poor is one of the major factors responsible for the outbreak of protests against poor service delivery in various neighbourhoods over the past year. However, there appear to be several other factors at play underlying such protests. Frustration with the inequality of income between

highly paid municipal officials who are totally inefficient, on the one hand, and workers and the unemployed, on the other hand, is one reason. Corruption amongst municipal and government officials is another. More generally, there is a feeling of distance between the government and the people. Although Zuma has tried to address this by visiting some of the affected areas, as have a few of his ministers, it is too early to assess whether the new president will succeed in being seen to be coming closer to the people. Undoubtedly, much of the frustration of the people stems from distance and lack of responsiveness on the part of the previous Mbeki administration to the desires of communities. Even though amenities were provided, this was not done in consultation with the people themselves, in order to determine what they really wanted rather than what the authorities deemed they needed.

In the final analysis, however, one feels that the whole debate about the direction of economic policy carries the risk of being a red herring. Whether or not the government succeeds in its developmental imperatives depends more on its ability to spend money allocated appropriately and efficiently than on whether or not it is budgeting for larger deficits and higher taxes to fund such expenditure. Numerous examples abound of money having been allocated for developmental expenditure, but such funds never coming to be spent because of the lack of human capacity and inefficiency within the public sector to do so. Some of this money has been siphoned off in the form of corrupt practices amongst public sector officials. In other words, the ability to improve the social conditions of the broader section of the population and ensure appropriate and efficient delivery of social services has more to do with the human resources capacity of the public sector than with the policies and funding involved. This is especially pertinent in respect of local government. Often, officials who took over the functions of running municipalities have been inexperienced and lacking in the institutional memory so necessary for efficient management.

Whether or not the government succeeds in its developmental imperatives depends more on its ability to spend money allocated appropriately and efficiently than on whether or not it is budgeting for larger deficits and higher taxes to fund such expenditure.

Worse still, most officials who have the ability are absorbed into the private sector to enable companies to fulfil their employment equity requirements. This has deprived local government of the best officials. As the South African Local Government Association concluded in a study last year, one-third of local government officials cannot read or write properly and two-thirds of them do not understand their roles and responsibilities (see Mbanjwa 2008).

## Conclusion

In conclusion, the issue of whether or not the government's economic policies are moving leftwards is actually subservient to the broader imperative of education and skills development. The low level of education and skills in both technical and management fields within the broader section of the population contributes towards a very low level of competitiveness internationally. This renders the economy highly dependent on imports to keep functioning effectively and this is inimical to job creation. Without sufficient competitiveness, the South African economy continues to depend crucially upon exporting raw and processed materials as a means of generating the foreign exchange with which to purchase equipment required for infrastructural development and, more generally, for the running of private sector business. The dependence on exporting sufficient raw materials to bring in the foreign exchange with which to pay for imports leads to the economy being highly dependent upon global demand and international economic conditions.

Not only does the inadequacy of education and skills levels contribute towards a lack of competitiveness and exaggerated dependence upon international developments, but it also leads to a high proportion of the population effectively being unemployable, especially in a society in which technological attributes are increasingly at a premium. The associated

shortage of appropriate technical and managerial skills exacerbates the gap between the remuneration of the haves and the have-nots. Resultant high levels of inequality are at the heart of many of the social problems inherent in South African society, including a crime rate so high that it chases away many of the skills that might otherwise have been available to assist in the development of the economy.

South Africa faces the enormous challenge of uplifting its human resources fairly dramatically, yet progress in this regard has been extremely poor since the country's political transformation, notwithstanding the proportionately high amounts of government expenditure devoted to education and training. There is the added challenge of finding the necessary skills to transfer knowledge and experience to those previously deprived of appropriate educational opportunities. Addressing this challenge requires strong leadership and a willingness to tackle the problem head-on, without using the inequities of the past as an excuse for not improving the country's developmental needs.

Given the amazingly high correlation between global and domestic growth, it would be dangerous to overestimate the impact that the domestic political environment has on the course of the domestic economy. To a large extent, the tug of war between those trying to promote market-oriented practices and those opting for populism adds to the uncompetitive state of the South African economy. By creating a lot of uncertainty regarding the potential future consistency of South African economic policy, the tension between those favouring a market economy and those supportive of an interventionist command economy tends to repel both domestic and foreign investment opportunities, which might otherwise have contributed towards improved social development, faster economic growth and greater employment.

# analysis

## BEE IS DEAD! LONG LIVE BEE!

Lumkile Mondli

### BACKGROUND

The challenge confronting the African National Congress (ANC) when it took over government in 1994 was not to manage the inherited economy more effectively than its predecessors, but rather to fundamentally transform a system that was deeply flawed and crisis-ridden. Fundamental restructuring was essential, both to address the extreme poverty and inequality generated by the apartheid economic and social system and to place the economy on a new growth path, oriented towards sustainable development. The strategic approach agreed upon by the ANC-led alliance on the eve of the 1994 election was outlined in the Reconstruction and Development Programme (RDP). Although the RDP was not an economic blueprint, its focus was on the structural transformation of the economy.

The Mandela and Mbeki presidencies introduced various restitutional policies to promote transformation in consultation with various stakeholders. Landmark legislative interventions during their tenure were the:

- Promotion of Equality and Prevention of Unfair Discrimination Act 4 of 2000;
- Extension of Security of Tenure Act 62 of 1997;
- Restitution of Land Rights Act 22 of 1994;
- Employment Equity Act 55 of 1998;
- National Empowerment Fund Act 105 of 1998;
- Competition Act 89 of 1998;
- Telecommunications Act 103 of 1996;
- Preferential Procurement Policy Framework Act 5 of 2000;
- Mineral and Petroleum Development Act 28 of 2002; and
- Broad Based Black Economic Empowerment Act 53 of 2003.

In addition to these statutory provisions, the government implemented several policies, strategies and programmes that were aimed at supporting this legislative suite in its

quest to undo economic inequalities and push back the boundaries of underdevelopment. These included the:

- Integrated Human Resources Development Strategy;
- Urban Renewal Programme;
- Integrated Sustainable Rural Development Programme;
- Tourism Transformation Strategy;
- Strategic Sector Plan for Agriculture; and
- National Small Business Development Promotion Programme.

Together, these interventions were aimed at redistribution, meeting basic needs, raising human resources capacity, promoting the restructuring of productive sectors and improving macroeconomic management. However, while implementing these measures to correct internal structural inequality, the Mandela and Mbeki presidencies also had to concern themselves with South Africa's reintegration into the international community (and, not least, the global economy) after decades of isolation.

This aspect of post-apartheid governance, together with the expansion of the black middle class, carried particular weight under the Mbeki presidency. However, his detractors have argued that, although necessary, this emphasis, which characterised most of his presidency, became disproportionate to the real developmental needs and aspirations of millions of disenfranchised South Africans, who could not reap the benefits of a generous global economic environment and strict fiscal discipline. Indeed, the latter, as embodied in the Growth, Employment and Redistribution (GEAR) programme attracted the ire of the ANC's alliance partners. In the view of some, GEAR became a policy that called on the poor to defer their aspirations, while a selected few, who were strategically placed in terms of their relationships with the government, did not have to make the same sacrifice.

BEE, seen as one of the by-products of Mbeki's policy constellation, became one of the main targets of such criticism. Mbeki strongly championed BEE by passing the Broad Based Black Economic Empowerment Act in 2003, and encouraged state-owned enterprises to procure goods and services from black businesses, while privatising some enterprises to the advantage of black-controlled entities. Although BEE transactions were given particular impetus by the adoption of sectoral charters, such as in mining, the finance industry and the IT sector, the charge remained that too few benefited from their spin-offs. Ultimately, such perceptions played a significant role in contributing to Mbeki's downfall at the ANC's National Conference in Polokwane in December 2007.

Criticism has come not only from the left. Moeletsi Mbeki, a prominent businessman and the former president's brother, has been particularly assertive in his view that BEE has created little new wealth, and rather, through the creation of complex funding vehicles, has made the new business class especially vulnerable to debts financed through the stock market. According to Moeletsi Mbeki (2009: 61):

BEE strikes a fatal blow against the emergence of black entrepreneurship by creating a small class of unproductive, but wealthy, black crony capitalists made up of ANC politicians, some retired and others not, who have become strong allies of the economic oligarchy that is, ironically, the caretaker of South Africa's deindustrialization.

Despite such vehement criticism, successive All Media Products Surveys (AMPS) provide compelling evidence of the growth of a black middle class, which to a large degree has contributed to the country's protracted consumption-driven economic growth in recent years. In addition, few economists would contest the fact that poverty levels have been shifted back over the past 15 years. Although this has been due mainly to the rapid expansion of the country's social welfare net since the turn of the millennium, the capacity to do so was underwritten by the revenues of robust growth under the Mbeki presidency.

Significant as this may have been, it is equally evident from the AMPS data that the gains of black South Africans who were strategically placed to profit from BEE policies were significantly disproportionate to those of the most marginalised sectors of society.

Why has this been the case? The BEE strategy document drafted by the Department of Trade and Industry conceives of BEE as:

an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the numbers of black people that manage, own and control the country's economy, as well as significant decreases in income inequalities. (DTI n.d: para. 3.3.2)

The document goes on to outline seven key indicators for successful empowerment, which also constitute the central components of current BEE scorecards; they include ownership, management control, procurement, employment equity, socio-economic development, skills development and enterprise development. It has been the contention of many

of its critics that BEE's failure to address the material plight of a broader cross-section of South Africans resides in the disproportionate emphasis that ownership has received in such BEE transactions, to the detriment of the remaining indicators. As a result of sensitivity to this accusation, greater stress has been placed on the incorporation of the other indicators in recent years. A marked change in discourse has become apparent during this period, in which reference to BEE has made way for BBBEE (broad-based black economic empowerment). In the longer term, however, it is critical that change in perspective towards BEE goes further than the semantics of the discourse.

These views on the development of BEE thus far are accompanied by an appreciation of the challenges and contradictions of BEE and the tensions it has caused, particularly in the black middle class. Moreover, such discussions cannot but be located in the policy designs and the political economy of the 'Class of 96' and its contradictions in a country bedevilled by chronic unemployment, poverty and inequality. BEE's weakness, particularly as it relates to the large-scale absence of a more equitable distribution of its benefits, must be seen in the volatile context that shaped it.

That said, it cannot be denied that the BBBEE project, regardless of the criticisms levelled against it, has managed to broaden the asset base of black South Africans. Such assets, therefore, hold the potential to provide the springboard for a more expansive distribution of wealth amongst marginalised groups. For this to happen, however, it is vital that the gains made are consolidated. Without doubt, the global financial downturn has put these gains under stress and has exposed some of the shared weaknesses of BBBEE transactions. The following section looks at these more closely.

## BBBEE AND THE GLOBAL FINANCIAL CRISIS

As the worst economic downturn since the Great Depression of the 1930s hit the world, South Africa was caught unawares. Not only was the country consumed by a vicious power struggle for the leadership of the ruling party, but the robust economic performance of preceding years had instilled a misplaced sense of self-assurance.

Against the backdrop of more than 14 years of uninterrupted GDP growth, South African business and

**The BBBEE project, regardless of the criticisms levelled against it, has managed to broaden the asset base of black South Africans.**

political leadership were confident that the country would be saved from the worst ravages of the crisis. In the belief that the crisis was essentially one involving financial institutions, the country relied strongly on the view that its healthy fiscal balances and macroeconomic fundamentals would soften the impact (Abedian 2008). Consequently, the risks involved were talked down consistently during the first months of the downturn.

As the JSE All Share Index collapsed from above the 30 000 level in the earlier part of 2008 to the lower 20 000 level, denial about the prospects for contagion continued, with officials citing the health of the South African financial sector and the iron curtain of exchange controls, which limited the toxic-asset appetite of local financial institutions. In recent months, most of the optimists, including former Finance Minister Trevor Manuel, had to concede that they seriously underestimated the gravity of the global crisis. As it spilled over into the real economy, South Africa officially slipped into recession for the first time in 17 years. The stock market plunged even further, as did others that were strongly underpinned by commodities.

The beneficiaries of recent BBBEE transactions count amongst those hit hardest by the rapid declines in stock values over this period. This has far-reaching implications for the deracialisation of the South African economy. As far as medium- to longer-term objectives are concerned, a big question mark hovers over the achievability of the target envisaged in most BEE sectoral charters of 25 per cent black ownership by 2017.

Until the late 1990s, there had been a growing presence of black-controlled companies on the JSE. Some of these gains were eroded partially by the knock-on effects of the developing markets crisis of 1997/8, which originated in East Asia, but had a significant impact on Latin American economies. From then until the first half of 2008, important gains were made once again. From a purely transactional perspective, Figure 1.2.1 shows the total value of mergers and acquisitions (M&As) between 1995 to 2007, the value of BEE transactions for this period, as well as the latter expressed as a percentage of the former.

The picture since 2007 has been less rosy. With the cost of capital soaring, while asset prices simultaneously fall, credit markets have been tightened. As global and domestic confidence slumped, M&A activity plummeted and, inevitably, so did the scale of BBBEE transactions.

These transactions have been especially vulnerable to the downturn. Many of them were financed by equity; particularly in the mining industry, where new players entered the market during the commodity boom in an

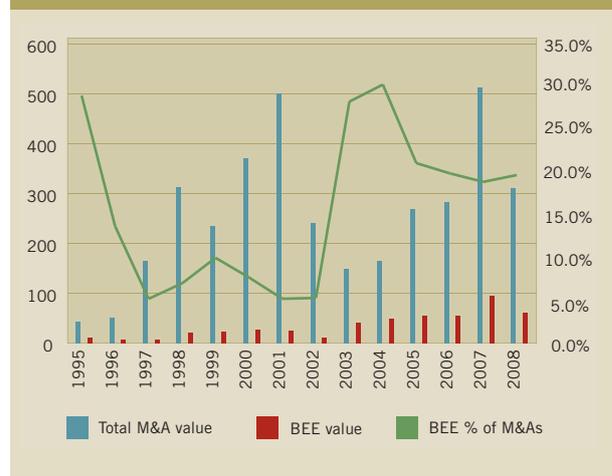
environment of high and rising prices, these companies were highly reliant on huge growth in company share prices. This was critical to ensuring the kind of cash flow required to service their debt. Thus, such companies were hit on two fronts; firstly, with a substantial decline (of about 60 to 80 per cent) in share prices and, secondly, with a considerably more risk-averse global and domestic financial sector.

An example of the type of transaction entered into at the height of the commodity boom is the Lonmin BEE-Incwala deal, which was facilitated by Impala Platinum and Lonmin. Not only has the structure of the deal collapsed as Incwala's black shareholders battle to service debt on the back of Lonmin losses, there is also a risk of losing the mining license. This reality is faced by most of the empowered mining companies, such as Anglo Platinum, Heric Ferrochrome and Impala Platinum. It remains to be seen whether the Department of Minerals and Energy will follow through and enforce compliance with the law.

Since liquidity in the market has dried up, about 90 per cent of BEE companies may be without viable amounts of cash to finance their businesses. Should the pace of domestic recovery not pick up significantly, there is a strong likelihood that many of the empowerment gains of recent years will be obliterated.

Against this background, structured financing models (so long beloved by BEE financiers) have proven ineffectual in weathering the current turmoil in financial markets. As indicated above, cash retention has been crucial for most

Figure 1.2.1: Value of BEE transactions over time (R billion)



Source: Ernst & Young (2009: 22)

companies. This is partly manifest in the form of reduction in or postponement of dividends, as the impact of the recession bites. According to the rating agency Empowerdex, an estimated R41 billion worth of BEE deals were decimated in the past two years due to the negative market conditions that have been spawned by the ongoing economic recession (Mabotja 2009). The agency calculates that in 2008, empowerment deals sealed by JSE-listed companies declined fivefold, to R13 billion from R66 billion the previous year.

Such sentiment is also partly borne out in the KPMG (2009) survey amongst corporates and parastatals, as it relates to employment and procurement practices. For example, 53 per cent of respondents indicated that they were putting new appointments on hold. Within the same sample, 80 per cent of JSE-listed companies identified employment equity as the most difficult component of the BEE code to implement. Thus, while the statistics on ownership and transaction value already tell a depressing story, the results relating to employment practices add to the sense of gloom.

Interestingly, those BEE companies that have managed to weather the storm have been the more established entities that were formed prior to 2004. These companies have established themselves, built up a track record and credibility in the markets, and (probably most importantly) have not designed their business strategies solely around the expectation of huge profit margins.

## THE IDC, DEVELOPMENT FINANCE AND BBBEE

Over the years, various development finance institutions (DFIs) have played a role in offering financial support to black businesses. These include Khula, the National Empowerment Fund and the Industrial Development Corporation (IDC), while the Land Bank and the Development Bank of Southern Africa have also made significant contributions in this regard. Given the author's affiliation to the IDC, the remarks relating to development finance in this section are circumscribed by personal experience in this institution.

An examination of the role of the IDC provides critical insights into proactive project financing of empowerment. The IDC has played a leading role in financing BEE transactions. The organisation's involvement with BEE funding commenced in the early 1990s, when it secured the inclusion of historically disadvantaged persons in companies such as National Sorghum Breweries, NAIL and MTN.

The IDC has long recognised that balanced, sustainable economic growth for South Africa can be attained only through the full, broad-based participation of all South Africans. This, it believes, can be achieved solely by means

Should the pace of domestic recovery not pick up significantly, there is a strong likelihood that many of the empowerment gains of recent years will be obliterated.

of an integrated strategy that includes BEE. BEE is viewed by the IDC within a broader context of development that should result in job creation, rural development, urban renewal, poverty alleviation, empowerment of women, skills and management development, education, meaningful transfer of ownership and access to finance for the purpose of creating wealth.

Given the IDC's own constraints, applications for funding from black-owned enterprises will continue to be measured strictly against these criteria. Black ownership *per se* will not qualify a business entity for funding; of more relevance is the extent to which entrepreneurial skill will expand the economic cake and contribute to more equitable growth.

## Achievements and some lessons learned on BEE financing

A central objective of the ANC's original post-apartheid economic design, the RDP, was to encourage black business ownership and to transfer control completely 'through focused policies of black economic empowerment'. There is little doubt that financial support measures have leveraged private sector funds to support BEE. This is an important point, because it is quite evident, now probably more than ever over the past 15 years, that the state alone cannot finance BBBEE initiatives. Ideally, the bulk of the funding should come from the private sector, with state funds playing a facilitative role.

The government's approach was to situate BEE within the context of a broader national empowerment strategy that focused on historically disadvantaged people, and particularly black people, women, youth, the disabled and rural communities. While gains have been made within the public sector, the overall approach to BEE tended to lack focus and an overarching strategic framework. Nevertheless, a process of BEE started to emerge in the mid-1990s to achieve this objective.

The private sector embarked on several BEE initiatives in the 1990s. Thus, for example, Sanlam sold 10 per cent of its stake in Metropolitan Life to a black-owned consortium in 1993. Several institutions in the financial and other key sectors of the economy followed suit by selling equity stakes

in enterprises, many of them listed on the JSE, to black investors.

Nevertheless, one of the biggest drawbacks to broad-based empowerment transactions over time has been the low levels of initial capital endowment of the black business community. This has resulted in financing arrangements being highly geared and often dependent on problematic corporate structures. Financing consortia, or 'special purpose vehicles', were utilised to compensate for lack of capital to invest in new BEE enterprises. In many instances, these consortia behaved more like investment funds and conglomerate corporate structures than the entities that one would normally associate with such transactions. As a result, new black owners were left highly indebted, as financial and equity markets experienced considerable volatility globally. If not addressed, this will remain a problem area for years to come.

### Challenges facing BEE financing in South Africa

Although BEE financing has reached advanced stages and has brought about transformation in several sectors of the economy, some challenges remain. Areas that require focus for black business include:

- training in business management skills;
- the ability to identify appropriate opportunities;
- the ability to understand the business and the industry;
- the patience required for long-term investments; and
- lack of financial commitment.

A longer-term issue, which has been evoked by the current recession, relates to the broader question of post-apartheid economic transformation. While the manner in which the BEE project has unfolded over the past decade and a half has been subject to fierce criticism, it has undeniably facilitated a significant transfer of assets from traditional white business entities to formerly marginalised sections of the South African population. Many of the gains have been eroded by the recession, and further losses are still possible.

Consequently, the question is raised as to what lengths the government and DFIs will go to ensure that the transformation of the South African economy remains on track. Should struggling BEE companies be bailed out and, if so, what should the criteria be for such support?

Given its developmental mandate, the IDC has had to engage with such questions quite thoroughly. During its search for appropriate interventions, the Corporation investigated the drivers that led companies into distress. On the basis of these drivers, it developed its criteria for support.

These drivers include:

- contexts where companies experience declining sales due to several reasons beyond their control, including reduced demand arising from the loss or reduction of sales contracts, lower consumer or industrial demand (including international demand), declining prices, and/or dumping;
- contexts where increases in input costs have occurred as a result of price increases by suppliers wanting to compensate for reductions in sales volumes over the previous 6 to 12 months;
- contexts where increases in the interest rates paid by the companies (as a result of banks charging higher rates and a limited availability of credit) make the business unfeasible;
- contexts where cash-flow problems, associated with working capital cycles, have resulted in non-payment or late payment by customers who have also been affected by the current market conditions and by suppliers with tightened credit terms;
- contexts where companies with sound business concerns cannot access credit, due to a perceived high risk or because their credit lines with banks have been reduced; and
- contexts where problems have arisen as a result of existing shareholders not having the financial capacity to inject further funding into a viable business with cash-flow problems.

In response to these contexts, the IDC developed the following criteria for supporting deserving companies:

- Companies should be clients experiencing cyclical difficulties due to the current economic downturn.
- They should have been profitable in the past, but their financial performance has been impacted upon negatively by the economic downturn. Therefore, for established businesses, the company should demonstrate a profit history, with acceptable financial ratios that existed at least two years prior to the company experiencing problems. The profit-history criterion is a mechanism to ensure that companies are assessed for reasons relating to the economic downturn and not for other reasons, such as poor management, marketing or other structural problems.
- If a company was in a start-up phase and had not yet achieved profitability, assistance could be considered, provided that the company's performance had been in

line with budgets as per its initial business/project plan, and that the IDC was satisfied that the business was performing in line with what could have been expected in the absence of the crisis.

- It would be acceptable to consider a company with financial ratios (such as structure, profitability and cash-flow) below IDC norms in the period affected by the crisis. However, the ratios should approach IDC norms within a period of 18 months.
- The company should not have been experiencing cash-flow problems or a decline in profitability for more than 6 to 12 months. The importance of a profitable trading history prior to this period is that if the company had been profitable, and the problems were due to the downturn, the trading history with losses would be unlikely to have lasted longer than 12 months.
- The company must have a clear turnaround plan that contributes to the sustainable recovery of the business.
- To be considered, the latest audited financial statements must be presented.

The IDC intervention was aimed primarily at ensuring that the industrial capacity and certain capabilities of firms were not decimated by the crisis. Secondly, it intervened to ensure that entrepreneurs, particularly new entrants whose businesses were failing, did not get discouraged by the experience of a recession. In response to the IDC's announced support, several BBBEE players approached the IDC for refinancing and other forms of support to maintain their empowered status in the face of the crisis.

In the process, the IDC had to deal with the contradictions of helping entrepreneurs and businesses in distress, on the one hand, and maintaining focus on the broader goals of transformation, including BBBEE, on the other. It must, however, be mentioned that the IDC itself also experienced notional losses of about 23 per cent, due to the collapse of its listed counters at the JSE Securities Exchange. As resources were limited and good money was not to be used to pursue bad business, the IDC stuck to its criteria and supported BBBEE only where the money was going to the business, thereby ensuring that jobs were saved and that industrial capacity and capability were preserved.

The IDC's response and the lack of state support in keeping collapsed BBBEE structures afloat has led to questions about the government's commitment to the transformation agenda. Criticism of the government has spread to the area of employment equity, a key component of BBBEE (and a

## Should struggling BEE companies be bailed out and, if so, what should the criteria be for such support?

central feature of the recent Eskom boardroom battle). When the Eskom board got rid of its CEO, the Black Management Forum (BMF) and the ANC Youth League immediately questioned the motives of the decision on racial grounds, rather than questioning the competence of the CEO. This may be an indication of a perception amongst ANC allies that the government is weak in promoting equity and that DFIs, such as the IDC, are not fully committed to the transformation of the economy. It is, nevertheless, still too early to come to any conclusions as to how the ANC will pursue its priorities of employment, poverty alleviation and reduction of inequality, in a context where it may come under increasing pressure from a black middle class that perceives its gains as being pushed back by the economic crisis.

## CONCLUSION

While efforts are being exerted to transform the South African economy in all respects, challenges still exist. The aspects reflected upon in this article should make it clear that such transformation remains an incredibly important national imperative. Economic growth still has not reached levels sufficiently sustainable to support complete transformation in the economy. Issues such as inequality, coupled with low levels of investment and rising unemployment, remain problematic.

Despite progress being made on BBBEE, there are mixed views around the strategy and how it has been achieved. The most controversial point of debate remains the view that BEE benefits only a few individuals. The introduction of sector charters, together with the DTT's release of a code of best practice, have been a positive development, which offers a potential catalyst for transformation of the South African economy in the targeted sectors. President Zuma has stressed the need for fresh thinking on different models of development. These models are to be located in the economic and political context of the day.

In his June 2009 'State of the Nation' address, President Zuma said that having received the overwhelming support of South Africans, there is a need to express the ANC manifesto practically. The ANC has proposed a programme of action that revolves around the challenges of poverty, inequality and unemployment. Key priorities for the government are:

- jobs;
- rural development;
- health reform;
- education and skills development; and
- poverty, crime and corruption.

There might be those in the ANC who believe that BEE is dead, given its unpopularity in certain quarters. This point is also highlighted by the absence of BEE in the key priorities of the ANC as listed above, which evidences the role played by COSATU, which prioritises class above race. However, at the Alliance Economic Summit of 13–15 November 2009, the ANC asserted its leadership role in the alliance. While the ANC has remained silent on the events at Eskom, in the face of the BMF and the ANC Youth League race alarm, it remains to be seen whether its small victory at the summit will propel it to enter the race debate.

It is important for the ANC to get the economy right, and this requires leadership that puts South Africa first by appointing skilled people who can deliver growth, employment and redistribution. South African civil society is watching every step the ANC takes as it attempts to assert its leadership. An important sign of commitment to the key objective will be the appointment by the government of effective leadership at South African Airways, Transnet and Eskom. The restoration of confidence in these state-owned enterprises is a priority, and who gets appointed is critical. Should the ANC appoint predominantly white executives,

## Economic growth still has not reached levels sufficiently sustainable to support complete transformation in the economy.

the BMF and the Youth League will be among those to cry race, forgetting that setting these institution right is more important to South Africa's recovery from the economic crisis. Economic transformation needs a growing economy; and for the economy to grow, South Africa needs institutions that are efficient and well run by whoever is most capable. This will facilitate economic transformation and, in the process, help to achieve the goals of the Freedom Charter and the RDP.

Unfortunately, during an economic crisis South Africans see gloom and doom. Scarce credit, due to a lack of liquidity, leads to the deferment of economic transformation. Good money follows good projects. Funding for empowerment dries up, as DFIs and the state focus on economic growth, employment, poverty and inequality. Lack of adequate funding results in the collapse of some BEE entities, strengthening Moeletsi Mbeki's argument for the support of entrepreneurs rather than the transfer of ownership.

The results of economic recession and the negative sentiments among sections of the South African community could spell the death of BEE as we have come to understand it in the form of ownership. Long Live BEE!



2 GWEN LANE

# review

## REFLECTIONS ON BUILDING A SUSTAINABLE SOCIAL PACT: BUSINESS, LABOUR AND THE STATE UNDER JACOB ZUMA

*Adam Habib*

Social pacts have become the 'mantra' of the South African political transition. Ever since it was first mooted in the early 1990s by Geoff Schreiner (1991, 1994) and Adrienne Bird (Bird & Schreiner 1992), two officials of the Congress of South African Trade Unions (COSATU), a social pact has appealed to the leadership figures in business, labour and the state. It is not hard to imagine why. After all, a social pact promises the possibility of peace between warring social partners, a non-zero outcome where all sides may get at least a part of what they desire. For an incumbent political elite that needed to manage popular and stakeholder expectations and grow the economy, it was a particularly attractive solution. However, the romanticised expectations of pacts and the euphoria surrounding the establishment of the National Economic Development and Labour Council (NEDLAC) in 1996 were soon dashed by the cold reality of everyday economics and politics. Within a year or two, business, labour and the state were bickering over not only the Growth, Employment and Redistribution (GEAR) strategy but almost all other policies. A political climate of mistrust consolidated itself over the country throughout Thabo Mbeki's reign, to be disrupted only by brief interludes of attempted peace by the ANC and COSATU, normally around election periods.

**A social pact promises the possibility of peace between warring social partners, a non-zero outcome where all sides may get at least a part of what they desire.**

Despite the dashed hopes about social pacts, they retained their hold on the imagination of most academics and the leaders of business, labour and the state. The result is that every now and then the idea resurfaces, most recently with the upsurge of labour activism following the ANC's victory in the general elections of April 2009. Driven by the biting

effects of the economic recession, a global backlash against corporate executive remuneration packages, and the fear that history might repeat itself and that the ANC, including those COSATU officials deployed to Cabinet and other government positions, could abandon its roots and promises and be seduced by the trappings of office, unions have become more active and robust in their wage negotiations, leading to a rolling set of public and private sector strikes. Caught off guard, both business and political leaders initially reacted immaturely. ANC leaders, most notably General Secretary Gwede Mantashe, berated workers for compromising the image of the Zuma administration. Business leaders characteristically resorted to the threat (mainly in business newspapers and magazines) that such labour activism would lead to investment fleeing South Africa's shores. In the midst of all of this, the idea of social pacts re-emerged, advocated not only by a number of leaders from all of the contesting stakeholders, but also by academics and commentators.

Is such a social pact feasible in a post-April 2009 South Africa? Is there not a need to understand why attempts at such a pact failed in the post-1994 period? These are the questions that drive the reflections detailed in the pages that follow. The article begins with a brief intellectual excursion about the idea of social pacts in South Africa, its institutionalisation through the establishment of NEDLAC, and the successes and failures thereof. Thereafter, it considers the reasons for the limited success of the social pact attempted in the mid-1990s, particularly by trying to understand the conditions in which social pacts emerge and succeed. Finally, the article weighs the prospects for the emergence and success of a social pact in the current era and details the challenges that need to be overcome if it is to be realised.

### THE RISE AND DECLINE OF SOCIAL PACTS<sup>1</sup>

South Africa's democratic transition, like that of most of the Third Wave of democracies (Huntington 1991), has been characterised by two distinct transitional processes, political democratisation and economic liberalisation. The goal of the former is representative government. The latter has as its aim the integration of South Africa into the global economy. Both processes, of course, pose dilemmas and raise challenges. COSATU, its leadership and officials were refreshingly aware of the dilemmas spawned by this Janus-faced transition from very early on in the 1990s. Through the first few years of the negotiations period, they groped their way to a new strategic vision that the federation's September Commission formally labelled 'social unionism' (COSATU 1997). Of course, the term was borrowed from the

writings of a number of labour sociologists loosely associated with the federation, who since the mid-1990s had toyed with terms such as, 'strategic', 'social' and 'social movement' unionism to describe what was by then the new path that COSATU had begun to tread (Webster 1988; Von Holdt 1992; Webster & Von Holdt 1992).

There are important conceptual differences between these terms, particularly within the industrial sociology discipline. Social movement unionism is defined in this academic tradition as 'a highly mobilised form of unionism which emerges in opposition to authoritarian regimes and repressive workplaces' (Von Holdt 2002: 285). This concept is often used to explain COSATU's involvement in the wider anti-apartheid struggle and its close relationship with the United Democratic Front (UDF) at the time. Strategic unionism, however, refers to a form of trade unionism that involves itself in social pacts and seeks strategically to influence economic and social policy by participating in forums where such policy is formulated. The objective is to influence policies to the advantage of workers and other marginalised communities. Strategic unionism emerged in South Africa during the early 1990s, when COSATU began to engage in economic policy discussions in the National Economic Forum. In the post-apartheid period, COSATU continued this form of engagement and, indeed, increased its role substantially in institutions like NEDLAC. This post-apartheid engagement of COSATU has been described by the union federation's leadership as social unionism. The term, officially promulgated by the September Commission, describes the federation's unionism as:

social in the sense that it is concerned with broad social and political issues, as well as the immediate concerns of its members. It aims to be a social force for transformation. Its goal is democracy and socialism. Its influence on society is based on its organised power, its capacity to mobilise, its socio-economic programme and policies and its participation in political and social alliances. It is committed to workers control and democracy, and to maintaining its character as a movement. It is proactive and effective. It is able to negotiate and monitor complex agreements with government and employers. It is able to make important contributions to national economic and social development. (COSATU 1997)

While recognising the importance of these conceptual differences in certain academic traditions, it is not necessary for them to be highlighted for the purposes of this reflection.

After all, the focus of this study is on the evolution of social pacts in South Africa, their successes and failures, and their viability in the current era. As a result, this article holds the view that COSATU's adoption, through the September Commission, of 'social unionism' is consistent with and informed by its early practices of social movement and strategic unionism.

The September Commission had as its mandate the determination of a strategic orientation for COSATU. Confronted with the economic and political challenges of the transition, the federation's leadership established the Commission to investigate organisational renewal and strategic political alliances. The Commission premised its reflections on three scenario-building exercises. Scenario One was defined as involving no economic growth, the abandonment of the Reconstruction and Development Programme (RDP) by the ANC, high levels of political instability, and increasing industrial strife. Economic growth and modest delivery distinguished Scenario Two. In this option, racial divisions continue, but the black middle class is empowered. Scenario Three was defined by massive growth and development, with significant job creation and delivery as per the RDP. Unions were imagined in this option as engaging in joint decision-making.

The Commission viewed a combination of the second and third scenarios as most likely and argued for a programme of social unionism so as to increase the trade union movement's influence on the political and socio-economic outcomes of the transition. In the words of the Commission, social unionism is:

the strategy which will enable COSATU to...proactively contest the transition...The aim is to harness the organised power of COSATU, its capacity to mobilise, its socio-economic programmes and policies and its participation in political and social alliances to make important contributions to national, economic and social development. (COSATU 1997)

It was hoped, through this strategic orientation, to increase the influence of the working class, so that labour could move to 'co-owning the transformation project' (COSATU 1997).

The strategic vision of social unionism had its roots in three related, but distinct, reflective exercises. First, there was the attempt by a number of senior unionists and some labour sociologists to legitimise COSATU's increasing involvement in tripartite forums that involved representatives of both the business community and the state.<sup>2</sup> The exercise began with two public interventions in the *South African*

## The September Commission argued for a programme of social unionism so as to increase the trade union movement's influence on the political and socio-economic outcomes of the transition.

*Labour Bulletin* by Adrienne Bird and Geoff Schreiner, who theorised the federation's participation in tripartite forums as an example of a social contract and suggested that this should be not only continued but intensified under a new democratic government (Schreiner 1991; Bird & Schreiner 1992). Their intervention spawned a debate both within and outside the labour movement that was to go on for years (Godongwana 1992; Webster & Keet 1992; Callinicos 1992; Baskin 1993; Schreiner 1994; Desai & Habib 1994), and that eventually culminated in COSATU's adoption of most of their original recommendations and its participation in corporatist institutions.

Second, there was the initiative of a number of economists associated with the Economic Trends Group and the Industrial Strategy Project who were contracted on behalf of COSATU to investigate an alternative, more labour-friendly industrialisation strategy. Their research generated a fair amount of controversy, since their recommendations were premised on the view that South Africa's economic growth depended significantly upon whether or not the country became internationally competitive in its manufacturing sector. Their formal recommendations included industrial beneficiation, the creation and development of South African manufacturing exports, and ultimately South Africa's integration into the global economy (Gelb 1991; Joffe, Kaplan, Kaplinsky & Lewis 1995). Finally, and ironically, the least controversy was generated by COSATU's decision to enter into a strategic alliance with the ANC for the 1994 elections. To be fair, the controversy in this regard had taken place some years earlier, when COSATU entered an alliance with the United Democratic Front (UDF). In any case, COSATU's electoral pact with the ANC came with preconditions, which the federation codified in a reconstruction accord, commonly known as the RDP, which the ANC adopted as its electoral platform (ANC 1994).<sup>3</sup>

These three initiatives, or at least their recommendations, then served as the basis of what eventually came to be known as social unionism. Thus, social unionism is defined by three elements. First, it involves a corporatist strategy, with the labour movement participating in tripartite

forums and entering into social pacts with the state and the business community. Second, it involves an assumption that integration into the global economy is inevitable, that the realisation of maximalist outcomes is not achievable, and that a strategic economic compromise between capital and labour is necessary. Such a compromise would involve, in Glenn Adler's and Eddie Webster's words, a "bargained liberalisation": liberalisation, because the changes involve opening up to the global economy; bargained, because agreements are subject to the institutionally structured interplay of societal interests'. 'Bargained liberalisation', in their view, 'may provide workers and marginalized social strata with an opportunity to engage the state and capital over the form and pace of adjustment, allowing the extension of some measure of social regulation to those whose livelihoods are threatened by economic restructuring' (Webster & Adler 1999: 351). Finally, social unionism requires COSATU to align itself politically with the ANC. Such an alliance is legitimised through the conceptual banner of the national democratic revolution, implying that the immediate outcome is a democracy essentially defined by a combination of a representative political system and a Keynesian-type economic strategy.

Social unionism's highpoint is without doubt the period between 1994 and 1996. Labour recorded significant successes in these years. NEDLAC was established in February 1995, and the Labour Relations Act 66 of 1995, which greatly enhanced organised workers' bargaining position, was agreed to by the social partners, subsequently passed in the national legislature, and promulgated by the president (Habib 1997; Marais 2001). A raft of other legislation (like the Skills Development Act 97 of 1998) that benefited workers in a variety of ways, although passed in subsequent years, also originated in this period. In addition, the final Constitution, promulgated in 1996, addressed many of the concerns raised by labour and enshrined socio-economic rights, even if these were restricted by the limitation clause.<sup>4</sup> For a while, it did seem as if South Africa was going to defy the odds and that social unionism would succeed.

This was not to last, however. The symbolic turning point came with the emergence of GEAR, which violated all three of the central tenets of social unionism. It bypassed the corporatist structures, and was imposed by Cabinet without any discussion with the social partners (Adam, Moodley & Slabbert 1997; Bond 2000; Marais 2001; Alexander 2002). Even President Mandela acknowledged this in his speech at COSATU's sixth congress, saying: 'It was unfortunate that here in GEAR we did not have sufficient consultation with other members of the alliance. In fact even the ANC learnt

of GEAR when it was almost complete...We ignored those who put us in power...' (Mandela 1997). GEAR's economic strategy violated the compromise ethos described by Adler and Webster (1995) as the hallmark of social unionism (see also Webster & Adler 1999). Finally, its passage suggested that the tripartite alliance was not an effective mechanism to ensure COSATU's influence on the ANC. Indeed, the passage of GEAR suggested that COSATU's influence was waning.

If there remained any doubt about this, it was put to rest with Thabo Mbeki's 'State and Social Transformation' document. This document, released in 1996, explicitly identified the high government debt, the mobility of capital, and a changing global environment as inhibiting features that limited the ability of the government to implement democratic transformation on its own. On this basis, Mbeki argued that the ANC needed to transcend its previous antipathy towards the business community, abandon its wish for 'the total defeat and suppression of the national and class forces responsible for...apartheid', and focus on the establishment of a democratic state, which would involve 'a dialectical relationship with private capital as a social partner for development and social progress' (ANC 1996: 22). This call for a strategic alliance between the state and capital was a milestone, because it signalled a significant departure from the ANC's traditional approach to alliances, which tended to prioritise labour and other marginalised sectors within the black population.

The effects of this economic trajectory were catastrophic for workers. Between 1985 and 2002, the wage share of output as a percentage of GDP declined significantly from 57.1 per cent in 1985 to 51.4 per cent in 2002. In the same time period, profit share increased from 42.9 per cent to 51.4 per cent (Gelb 2003: 21). This trend almost certainly consolidated in the boom years between 2003 and 2007. In the public sector, the situation is even more serious. Public sector salary increases have lagged inflation for decades, with the result that it has become impossible to attract adequately qualified and trained staff (including teachers, nurses and doctors) to crucial professions in the public sector. This has long been recognised and the government recently promised to address the problem through the implementation of an occupation-specific dispensation. However, one year later, when still nothing had happened, public sector workers took to the streets, sparking the upsurge in labour activity after the April 2009 elections. In any case, there can be no doubt that workers have benefited far less than business from the growth of the South African economy in the last 15 years.

The political consequences of this were dramatic.

COSATU's relationship with the ANC deteriorated badly from 1996 and, since then, the trade union federation has embarked on a series of high-profile public stay-aways against one or other aspect of government policy. Person days lost in this period increased from 650 000 in 1997 to 1.25 million in 2001 (Andrew, Levy & Associates, in Devey, Valodia & Velia 2004). These public protests outraged the ANC leadership who on several occasions explicitly challenged COSATU to leave the alliance.<sup>5</sup> Increasingly, left-leaning activists within the ANC were pressurised to publicly tow the leadership's line, a process that graphically culminated in the public humiliation of Jeremy Cronin by some members of the ANC's National Executive Committee in 2002.<sup>6</sup>

The heady optimism of social unionism advocates also dissipated, with the result that their assessments of the prospects for unions and workers became more sober and realistic as the Mandela presidency came to its end. This is most evident in a comparison of Glenn Adler's and Eddie Webster's two interventions on labour and democracy in South Africa. The first, written in 1994 and published in 1995, is largely an actor-based theory of the transition, which prioritises agency over structure (even though they deny this) and demonstrates the central role played by COSATU in the transition and its evolution. Their chief message was that 'the South African transition may constitute the first significant challenge to the predictions of orthodox transition theory, [which suggests]...that the democracy resulting from the transition process is conservative economically and socially' (Adler & Webster 1995: 100). This challenge could emerge, they posited, if COSATU continued to adopt the strategy of radical reform, the constituent elements of which involved, among others, participation in corporatist forums, seconding COSATU leaders as ANC MPs to national and regional parliaments, and participation in the formulation of the RDP. Their second intervention, written in 1998 and published in 1999, was theoretically and conceptually more nuanced, recognising the conditioning effects of structures on actors, and comparatively more relevant, for it reflected on the experiences of both the developed and developing worlds.<sup>7</sup> Although the message was similar, that class compromise was still possible, they tended to be less sanguine about the prospects of its achievement and more aware of the structural conditioning effects on the ANC to abandon the interests of workers and marginalised communities in favour of an 'elite compromise'. The article still betrayed an exaggerated assessment of the capacities of the labour movement, which was reflected in their conclusion that South Africa was in the throes of a class stalemate (Webster

& Adler 1999). Nevertheless, their intervention suggested that social unionism advocates had graduated to a more sober assessment of the possibilities of a worker-friendly political dispensation.

Why was it that such politically astute labour leaders and experienced sociologists were so seriously misled? Why is it that the social pact that they had advocated had unravelled so completely? How is it that the social constituencies COSATU represented had lost such significant ground in a democratic era? The answers lie in the motivation for the social pacts. Labour leaders cottoned on to pacts as a mechanism to legitimise their alliance with the ANC and the soon-to-be leadership in the state. The sociologists were similarly driven by a desire to legitimise the decisions of the labour movement. As a result, there were no serious investigations into the conditions that generate pacts and enable their success. The comparative studies done were largely superficial, describing positive outcomes elsewhere and implying that these could emerge in South Africa, without investigating the specific conditions that facilitated them (Maree 1993). Studies that investigated the conditions that generate pacts, and warned of the dangers in the economic and political climate of the 1990s, were brushed aside as ultra-leftist and 'academic' (Callinicos 1992; Desai & Habib 1994; Habib 1997). The net effect was the unravelling of the social pacts, the political weakening of the unions, and the growth of poverty and inequality within society. To avoid such an outcome, it is imperative to understand the conditions under which social pacts emerge and succeed.

## EXPLAINING THE EMERGENCE OF SOCIAL PACTS

The international literature on corporatism and social pacts emanates from three schools, each advancing a distinctive explanation for the prevalence of such arrangements in the modern world.

The first, known as the historical continuity school, focused primarily on Latin America and argued that corporatist political features on the continent have their roots in a political culture historically grounded in hierarchy, status and patronage. One of the most noted scholars in this school, Howard Wiarda (1981) suggested that there is a distinct continuity between the pre- and post-colonial periods. The nature of the society and the substantive character of the political and constitutional order extended, in an adapted form, from the pre-colonial into the post-colonial period. Thus, corporatism was conceived as having its roots in an elitist, historical and authoritarian heritage

that was imparted to Latin America by its colonial powers.

A second, related but distinct, interpretation of corporatism emerged from the 'societal reflection school', which suggested that corporatist political arrangements were merely a reflection of the natural organisation of particular societies. Ronald Rogowski and Lois Wasserspring, two proponents of this thesis, argued that it was natural for groups to emerge in socially segmented societies. The state was excluded from their analysis of how groups emerged. In any case, since these groups were relatively self-directed in their political actions, Rogowski and Wasserspring maintained that corporatist arrangements automatically emerged to govern the political interactions among these naturally evolved groups (in Stepan 1978). Corporatism was, thus, a natural political arrangement in socially segmented societies.

Both the 'historical continuity' and 'societal reflection' explanations of the origins of corporatism have been subjected to substantial criticism by Alfred Stepan. The essential weakness of the 'historical continuity' explanations was the failure to account for the diversity of political outcomes in geographical areas that were considered to have experienced similar cultural influences (Stepan 1978). Stepan's criticisms extended to explanations of the 'societal reflection' school. His principal argument against this interpretation of corporatism was its treatment of society as the independent variable and the political system as the dependent variable. It was this erroneous conception, he believed, that enabled the school to conceive of group formation as a natural process not influenced by political factors.

The alternative interpretation of corporatism and social pacts advanced by Stepan (1978), Schmitter (1974), Maier (1984) and Panitch (1986) can be labelled 'crisis response'. This perspective simply suggested that corporatist institutional arrangements were state creations in times of crisis. Stepan analysed the emergence of state corporatism by reviewing the political programmes of corporatist regimes in Peru, Brazil, Chile and Mexico. He suggested that the programmatic goal of elites in these societies was to realise an 'integral security' that would serve to connect national security and development. State economic elites, he maintained, entered into an alliance with the military and multinational corporations in order to achieve the social peace that was required for the realisation of their national development plans. Stepan (1978: 58) further argued that corporatism appealed to elites throughout the Third World because 'there is a widespread elite fear that the old modes of domination are breaking down, and they search for new mechanisms to link the lower classes to the state and new formulas to legitimise such mechanisms'. He suggested that

a corporatist and statist ideology was the natural political response of elites in Africa and Latin America, once they rejected liberal and Marxist ideas because of their legitimisation of conflict.

Although Stepan's 'crisis response' explanation focused on the origins of state corporatism, it is also relevant to an understanding of the emergence of societal forms of corporatism. One application of this explanation to societal corporatism is Charles Maier's (1984) 'Preconditions for corporatism', which suggested that the origins of societal corporatist features in Western Europe could be understood only within the context of the rise of mass labour movements and their political challenge to the liberal constitutional order. Maier contended that, during and after the World War I, the production demands imposed by the war effort and the need to minimise labour unrest prompted state elites to establish corporatist arrangements. These arrangements were maintained into the period of, and after, World War II. The renegotiation of corporatist arrangements in the post-World War II period was motivated, he argued, by state elites' sense of political and economic vulnerability. Sustaining these corporatist features in subsequent decades was facilitated by the strength of social-democratic parties and the legitimisation of social democratic ideology, which 'was built upon the premise of continued bargaining among class actors for political and social gains' (Maier 1984: 49).

On balance, then, it seems that the 'crisis response' explanation is the most useful in explaining the rise of social pacts and societal corporatism in contemporary South Africa. The newly emerging ANC-aligned state elites, believing that prudent management of the South African economy in the post-Cold War era required generating and maintaining business confidence, enhancing the competitiveness of South African firms and convincing the foreign and domestic business communities to increase their levels of investment in the productive side of the economy, recognised that they could not immediately address the material grievances of, and deliver on the electoral promises they made to, their constituencies. Recognising that COSATU, as the largest trade union formation, had the capacity to destabilise this agenda by resorting to mass strikes and protests, they sought to neutralise this threat by embarking on a social pact and a corporatist strategy.

For its part, COSATU felt ideologically disarmed in the years immediately following the collapse of the Berlin Wall. This was most dramatically captured by Adrienne Bird and Geoff Schreiner (1992), senior unionists in the National Union of Metal Workers of South Africa (NUMSA) and COSATU, who suggested that the collapse of Eastern Europe and the Soviet

Union necessitated a rethink on the meaning of socialism. They argued that the failure of the communist experiment proved 'that modern day economies...do not permit the possibility that all functions of the market can be replaced. The market and private enterprise have to be allowed a significant role in a future socialist society' (Bird & Schreiner 1992: 23). On the basis of this, they proceeded to identify a range of corporatist institutions, like the National Economic Forum (NEF) and the National Manpower Commission (NMC), and suggested that these 'become permanent institutional features of a democratic socialist South Africa' (Bird & Schreiner 1992: 23–24). Social pacts, therefore, seemed a reasonable solution in a world where more radical solutions were not on the cards, and the idea of a social pact neatly dovetailed with the tradition of the ANC, COSATU and SACP (South African Communist Party) tripartite alliance. The pact was seen as a logical step forward for the alliance under conditions where they occupied state power.

The preceding theoretical reflections explain not only the emergence of social pacts, but also the conditions in which they are successful. Social pacts were most successful, especially for enhancing the livelihoods of ordinary citizens, in democratic Western Europe. This was the case, because the Cold War on the international plane, and the strength of unions in the domestic context, predisposed international political elites, and the political leadership in the United States, in particular, to facilitate West European development through the provision of the Marshall Aid plan, massive state-to-state aid (including investment for reconstructing ruined economies), and collective security through the establishment of the North Atlantic Treaty Organisation (NATO). This international and domestic context also created the political will among these elites for the establishment of a Keynesian macroeconomic environment within which social pacts and social democracies were cocooned. Social pacts, therefore, facilitated social democracy in Western Europe, in particular, because of the Keynesian macroeconomic environment, itself a product of a particular configuration of power in the global order (Maier 1984; Panitch 1986). In the more neo-liberal economic climate of South Africa in the mid-1990s, a similar outcome was unlikely. Indeed, as Przeworski (1991) maintained, social pacts and corporatist institutions became mechanisms of co-optation in this era, paving the way for a conservative economics, the resultant political tensions, and the ultimate failure of the strategy itself.

## A SOCIAL PACT IN THE ZUMA ERA?

Is a social pact feasible in the current context? After all, COSATU and the SACP are in a much more empowered position in the post-Polokwane era. This is especially evident in the fact that there are several Cabinet ministers in the post-April 2009 Cabinet who either have been deployed by COSATU and the SACP or are partial to their interests, policy proposals and ideological leanings. This must not be interpreted to suggest that the ANC and the state are controlled by COSATU and the SACP. Indeed, this is far from the case. The appointment of Trevor Manuel and Pravin Gordhan as Ministers of National Planning and Finance, respectively, is testimony to the ongoing leverage of business. After all, these appointments were made simply to placate the markets. Nevertheless, the appointment of other ministers to the corridors of economic power (for example, Rob Davies and Ebrahim Patel in Trade and Industry and Economic Planning, respectively) suggests a much greater plurality of ideological thought in the economic portfolios when compared to the Mbeki era. This equalisation of economic voice between labour and business is evidence of the enhanced power of labour, and implies that political and economic elites are uncertain of their futures and may be more predisposed towards viable and equitable social pacts.

This must not be interpreted to imply that the engagement over economic policy within the ANC is free of acrimony. Indeed, the singling out of Trevor Manuel at the COSATU Congress in September 2009 suggests that the union federation and the SACP are not yet confident that their political gains cannot be reversed. This was the real subtext of COSATU Secretary General Zwelinzima Vavi's criticism that Manuel was making a power play to become the de facto Prime Minister through the establishment of the National Planning Commission (NPC). After all, the 'Green Paper: National Strategic Planning' makes clear in multiple places that a strong partnership between social actors, in effect a social pact, is necessary for the process to be successful (The Presidency 2009). This would then concede a key demand of COSATU, namely that civil society play a central role in long-term government thinking and prioritisation. Given this, the only explanation for COSATU's criticism is that the federation does not trust Manuel as the central player in the initiative. Concerned that the politics and economics of the Mbeki camp would return to dominate government thinking through Manuel and the NPC, Vavi essentially launched a pre-emptive critique signalling that the 'left' was on guard to ensure that their policy victories in Polokwane would not be thwarted.

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There are some, particularly in the business community, who question the viability of the social pact, given this conflict within the ANC and the possibility that a new succession battle may be emerging within the party. However, abstention on the grounds of fear of future political battles cannot be an answer. It needs to be borne in mind that the value of equitable social pacts can be demonstrated only in practice. Should it be achieved, and benefits accrue to all social partners, then such a pact would take on a life of its own and transcend the political battles between left and right, as has occurred in Western Europe for much of the period since World War II.

In any event, the international environment seems to be more conducive to equitable social pacts. The current global economic crisis – probably the second most serious in a century – has weakened the power of multinational corporations and, as a result, implicitly has enhanced the leverage of states and national political elites. This altered circumstance has enabled a substantive change in the global macroeconomic policy environment. Beginning under Bush, and given fresh impetus by Obama, the American establishment threw out the precepts of the Washington Consensus and intervened significantly in the markets. US banks were virtually nationalised through the largest bailout in history. Similar bailouts were facilitated for motor vehicle and other conglomerates. Effectively, the American state addressed this crisis in exactly the way it and the International Monetary Fund had prevented developing nations from managing theirs. And the Americans were not alone. Similar interventions in the market were undertaken by the United Kingdom, France, Germany, China, Japan and almost every other major economy in the world. The net effect was a shift of the global macroeconomic environment in a quasi-Keynesian direction.

South Africa had begun to move down this path even before the crisis. Economic policy had shifted to the left in the last few years of the Thabo Mbeki administration. Privatisation was no longer the national priority it was in the late 1990s. There had been a significant increase in social support grants since 2001, so that 12 million people (a quarter of the population) received such aid towards the end of Mbeki's presidential tenure. In addition, the health and education budgets had been on a steep rise for a number of years

(Habib 2008). Moreover, since 2004, South Africa has had a major state-led infrastructural investment programme, to the current tune of R780 billion. The official rhetoric, under Mbeki and now under Zuma, speaks of the developmental state.

Economic policy under Zuma is likely to maintain this gradual trend to the left. It is unlikely to constitute a radical departure from Mbeki's agenda. South Africa is unlikely to see the nationalisation of Sasol or Mittal called for by the SACP. The shifts that do occur are likely to be in line with what already exists. They will be directed at both protecting and spreading the benefits of the democratic transition. This is reflected in a number of recent developments. It is reflected in the state's drive to fix service delivery. It is reflected in its provision of R2.5 billion to enable the retraining of workers retrenched as a result of the economic recession. It was reflected when Ebrahim Patel announced a rescue attempt for the Frame Group in order to protect jobs. It is reflected in Minister of Higher Education and Training Blade Nzimande's concerns about affordable tertiary education and the rebuilding of the post-secondary training and college sector to absorb the three million unemployed youth who are not in universities (Habib 2009). It is reflected, too, in the proposed National Health Insurance (NHI), which is likely to come on line in the next year or two. South Africa's economic environment had begun to move in a Keynesian direction in the last years of the Mbeki presidency, and this trend is likely to be consolidated under the Zuma administration.

Consequently, the balance of power and broader structural dynamics, including economic developments in both the global and national setting, are much more facilitative of equitable social pacts than they were in the 1990s, but structural conditions alone do not enable the emergence of social pacts. Such pacts also require political will and leadership, and South Africa's current political leadership has been lacking in this regard. This was most clearly evident in President Zuma's State of the Nation address. Confronted by a set of rolling labour strikes and service delivery protests, Zuma responded by promising everything to everyone. There is not much that one could disagree with in his speech. He gave business what it wanted. He gave labour what it wanted. Students got what they wanted. Middle- and upper-middle-class citizens got what they wanted. By saying everything, he in effect said nothing. No choices were made. No trade-offs were undertaken. In the process, he missed an important opportunity to define his political administration and to establish the essential preconditions for a social pact.

Social pacts, it must be understood, are established by state elites with the willing participation of the organised

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expressions of relevant social actors. They are essentially about managing the expectations of citizens, workers and even the business community. In this, Zuma, his ministers and the leadership of the ANC have failed, because the ANC's and government's responses have not been all that imaginative. Gwede Mantashe responded by chastising COSATU workers for compromising the image of the Zuma administration. Trevor Manuel accused business of cowardice, and asked it to stand up to the might of the unions. President Zuma has remained silent on the issue. None of this has enabled or will enable the management of popular expectations.

The issue can truly be addressed only by astute political management. This does not mean berating workers for populism or compromising Zuma's image. Rather, it would have required the president to use his State of the Nation address to inspire a nation. President Zuma could have begun by identifying the dilemma he was confronted with and recording that he was not the architect of it. He should have recognised the hypocrisy of a public debate in which workers are berated for asking for small increases in real terms, while the CEOs and company executives have not been chastised for their overly extravagant remuneration packages. Then, he should have explained that while he recognises the need for the increases, and sympathises with the economic plight of the workers, he does not have the resources to address their salary demands immediately. Zuma could legitimately have asked for time, provided what was immediately possible and established a process with representatives from all sides – in essence activating a social pact – to find a solution to the dilemma over the next three to five years.

President Zuma should have berated executives for their own lavish packages and should have requested them to forego their bonuses for the year, and to take lower than inflationary increases in their packages. The president should have said that sacrifices in this recession should be made not only by workers, the poor and marginalised, and ordinary citizens, but also by the rich and the upper-middle classes. After all, every stakeholder must be required to make sacrifices in the national interest in such a recessionary

environment. Of course, industry economists and Minister Trevor Manuel would have warned us of disillusioning the business community and of investment fleeing our shores. But would this have been true or simple scare-mongering? As long as the climate exists to make profits, the business community is mature enough to remain where it is. Remember, President Obama berated American business executives for their lavish million-dollar bonuses, remuneration packages and expense accounts. Prime Minister Brown, President Sarkozy and Chancellor Merkel have done the same, yet none of them has a single communist in their ranks. How is it that this government, which has at least half a dozen openly committed communists and socialists in the Cabinet, cannot do the same?

In sum then, the social pact attempted in the 1990s, remnants of which still exist today, failed because structural conditions were not facilitative of it realising equitable outcomes for all social partners. In essence, it became a co-optive mechanism to emasculate labour's demands. Now, however, structural conditions seem to be shifting – COSATU's leverage within the state has been enhanced, political and economic elites are more uncertain as a result of Polokwane, the global and national macroeconomic environment is moving in a Keynesian direction – creating the potential for a social pact to succeed. Yet, for this to happen, bold political leadership is required. Such leadership needs to manage the expectations of both citizens and workers and the business community.

ANC and government leaders have tried the former, but not the latter. Paralysed by a fear of markets and their reaction, political elites are reluctant to engage, even timidly, with reining in the expectations of business executives and the upper-middle classes. However, as long as they fail (or are perceived to fail) in doing so, they will fail to contain popular expectation. Popular and privileged expectations are tied by an umbilical cord, and neither can be reined in without the other, and so long as this is not done, a social pact cannot be realised. The irony is that whereas the social pact of the 1990s failed because of structural conditions, a pact for the post-April 2009 era may be stillborn because of a failure of political courage and imagination.

## NOTES

1. This section is drawn from Habib and Valodia (2006: 238–244).
2. This followed the successful anti-LRA (Labour Relations Act) campaign, which resulted in a restructured tripartite National Manpower Commission (NMC) and in the establishment of the National Economic Forum (NEF).
3. For different critical, reflective summaries of the RDP, see Lodge (1999), Bond (2000), Habib & Padayachee (2000) and Marais (2001).
4. A number of recent cases in the Constitutional Court were founded on the second-generation rights clause of the Constitution. The most prominent of these are the Grootboom case involving the issue of housing in the Western Cape, and the Treatment Action Campaign's (TAC) legal challenge, which focused on compelling the government to roll out anti-retroviral provision for AIDS sufferers.
5. Even Mandela publicly rebuked those who were critical of GEAR, and challenged them to leave the ANC if they felt uncomfortable with its direction (Habib, Daniel & Southall 2003).
6. For a reflective discussion of this, and its consequences for the tripartite alliance, see Southall (2003).
7. There is, for instance, a very useful reflection on the experiences of the Indian state, Kerala, and the lessons this may hold for democratic transitions in the South. See Webster and Adler (1999: 356–358).

# Chapter two

## The labour market

“While declines in employment have not generated historically high levels of unemployment, even conservative estimates of the economic downturn’s impact show that long-term consequences for the labour market could emerge.”

<b>Scorecard</b>	Labour market performance	33
<b>Review</b>	The South African labour market in the global financial crisis: Recovering lost gains <i>Dieter von Fintel and Rulof Burger</i>	34
<b>Analysis</b>	The Draft Expanded Public Works Programme: A major role in reducing unemployment and poverty? <i>Anna McCord and Charles Meth</i>	43
<b>Review</b>	Political influence without organisational power: COSATU’s contested future <i>Sakhela Buhlungu</i>	53

# overview

**Dieter von Fintel and Rulof Burger** contend that the economic downturn's implications for the labour market stretch far beyond the immediate losses of the past year. At the time of writing, job destruction continues apace, while job creation remains negligible. For recovery and reversal of the country's historically high unemployment levels, the economy will have to create space for new entrants to the labour market, while reabsorbing retrenched workers shed from the workforce during this period. Von Fintel and Burger suggest that interventions, such as the R2.4 billion National Job Fund, may have an important role to play in slowing down the pace at which dismissals have been taking place. However, they express concern that longer-term unemployment may continue to grow if the reabsorption of those who have lost their jobs does not accelerate. The writers caution against increased marginalisation of those unskilled workers who find themselves outside the labour market because of economic sluggishness, combined with the high wage demands of trade unions over the past year. For as long as this continues, the country will have to rely on non-labour market solutions, such as pensions and social grants, to alleviate poverty.

**Anna McCord and Charles Meth's** contribution investigates the significance of the role of the Expanded Public Works Programme (EPWP), one of the government's flagship projects, in its stated objective of halving poverty by 2014. They present recent modelling of the labour market to inform an assessment as to whether there is any likelihood of this materialising within the allocated time frame. Their calculations suggest that it is highly improbable, and that the EPWP will not make a significant contribution towards

improving prospects in this regard. Should Phase 2 of the EPWP deliver on its promise in terms of the numbers of work opportunities, it will provide temporary relief but, according to McCord and Meth, for a project of this nature to be successful it needs to be underpinned by a large-scale employment guarantee scheme. The authors see the Presidency's recently launched Community Work Programme (CWP), which has been billed as complementary to the EPWP, as a positive development in this regard. The CWP has been piloted successfully at community level and, if scaled up to national level, could make a significant dent in unemployment and poverty. Its cost and the practical implications of implementation, however, may be controversial and its national roll-out should be the subject of further debate.

In the final contribution to this chapter, **Sakhela Buhlungu** looks at the strength and influence of the Congress of South African Trade Unions (COSATU) during a period in which slow and negative growth has had a detrimental impact on its membership. While its political influence has grown significantly since the ANC's Polokwane conference, Buhlungu argues that the federation will have to deal with longer-term structural challenges that may diminish such influence over time. He points to the rapid expansion of COSATU's membership over the years, and suggests that while numbers may have bolstered its influence within the tripartite alliance, this growth has had a detrimental impact on the federation's organisational cohesiveness. The economic downturn and concurrent declines in union membership, therefore, may provide a compelling case for a review of COSATU's organisational strength.

# Labour market performance scorecard

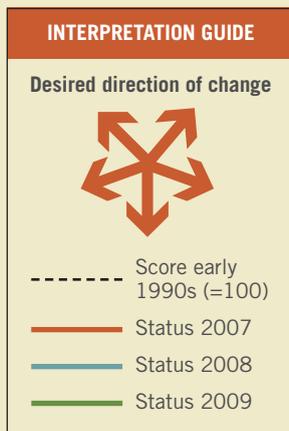
Transformation goal		Consistent employment growth in excess of new entrants to the labour market				
Desired outcome	Indicator	Status 1990–1994	Status 2007	Status 2008	Status 2009	Positive development
Adequate employment growth	Employment <sup>1, 2</sup>	9.6 million (1995)	12.3 million (2006)	12.9 million (2007)	13.7 million (2008)	↑
	Private non-agricultural employment <sup>2</sup>	6.7 million (1995)	10.0 million (2006)	10.4 million (2007)	11.2 million (2008)	↑
	Unemployment (expanded definition) <sup>3</sup>	27.8% 4 million (1995)	37.5% 7.6 million (2006)	35.6% 7.3 million (2007)	28.1% 5.2 million (2008)	↑
Absorption of first-time entrants	Youth unemployment <sup>3</sup>	41.5% 2.9 million (1995)	48.6% 5.5 million (2006)	46.6% 5.3 million (2007)	45.4% 4.9 million (2008)	↑
Broad-based employment	Differential between male and female unemployment <sup>3</sup>	1.58 (1995)	1.47 (2006)	1.45 (2007)	1.46 (2008)	↓

1. Excluding small-scale farmers

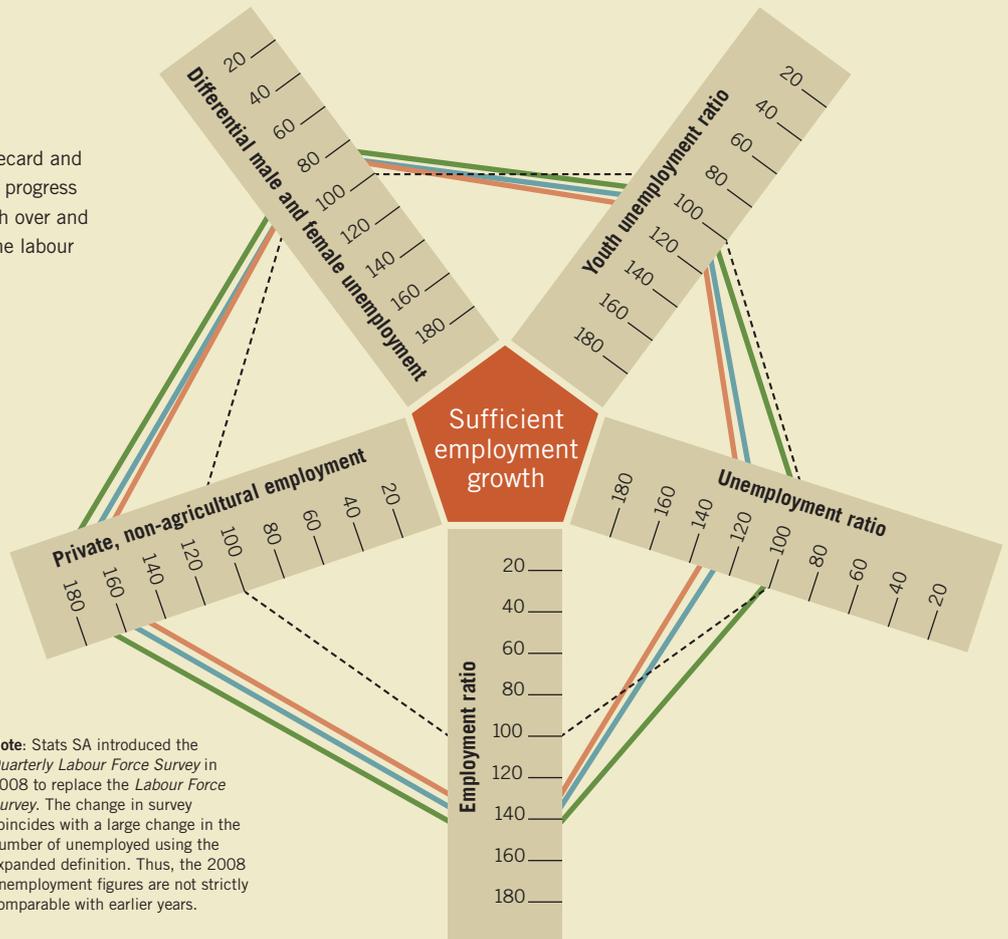
2. Sources: Stats SA, *October Household Survey 1995 to 1999; Labour Force Survey, September 2006, September 2007, September 2008*

3. Sources: Stats SA, *October Household Survey 1995; Labour Force Survey, September 2006, September 2007, September 2008*

The Labour Market Performance Scorecard and Star provide a snapshot impression of progress towards consistent employment growth over and above each year's new entrants into the labour market.



**Note:** Stats SA introduced the *Quarterly Labour Force Survey* in 2008 to replace the *Labour Force Survey*. The change in survey coincides with a large change in the number of unemployed using the expanded definition. Thus, the 2008 unemployment figures are not strictly comparable with earlier years.



# review

## THE SOUTH AFRICAN LABOUR MARKET IN THE GLOBAL FINANCIAL CRISIS: RECOVERING LOST GAINS

Dieter von Fintel and Rulof Burger

### THE END OF AN UPSWING

The recent financial crisis has not only affected global economic growth, but has pushed unemployment rates to their highest levels in recent decades in many developed nations. South Africa has not escaped the impacts of this crisis, and is likely to register negative annual growth by the end of 2009. This will not leave the South African labour market unscathed. Since the onset of the downturn, firms have cut jobs on a large scale and have created fewer vacancies in comparison to previous periods, leaving many workers (who had benefited from the gains in employment just before the crisis) in a vulnerable position.

Revisiting a previous economic turning point assists in understanding prospects from the current position. The South African Reserve Bank identified the third quarter of 1999 as the beginning of one of the longest upswings in the country's economic history. This was good news for an economy that has suffered one of the highest unemployment rates internationally. Indeed, the macroeconomic policy of the time, the Growth, Employment and Redistribution (GEAR) strategy, envisaged that economic growth (targeted at 6 per cent annually) would be one of the keys to alleviating this fundamental shortcoming. However, despite the positive change in overall economic fortunes, the labour market did not immediately follow suit. Until 2003, four years after the start of the upswing, the official unemployment rate continued to rise to beyond 30 per cent. This trend has been well documented, and the drivers analysed (see, for instance, Banerjee et al. 2006; Burger & Von Fintel 2009). The main cause was that the number of labour force participants (those looking for work) consistently exceeded those finding work, with the gap widening (see Figure 2.1.1). Following 2003, however, a reversal did occur, with absorption outpacing growth in new entrants to the labour market. The unemployment rate reached its minimum for the decade at 21.9 per cent by the fourth quarter of 2008, illustrating the

gains that the long spell of economic growth had eventually brought to the labour market.

This period signified a climax that was to be reversed. The rest of the world slumped into one of the largest financial crises of this generation, which started with the sub-prime mortgage fiasco in 2007 in the United States. South Africa and other emerging markets were insulated against its widespread effects until the last quarter of 2008, when the instability of the global crisis also impacted severely on emerging markets (Blanchard 2008). This period signalled an about-turn for South Africa, with GDP contracting by 1.8 per cent and again by 6.4 per cent in the first quarter of 2009 to send the economy into recession.

Figure 2.1.1 shows that the unemployment rate increased marginally to 23.5 per cent in the first quarter of 2009. This was driven by a decline in employment of 208 000 individuals compared to the previous quarter. Although a large shift for the labour market over one quarter, the change represented only 16 000 job losses since the third quarter of 2008. The recent job losses were, therefore, a reversal of the previous gains that economic growth had brought to the South African labour market. Indeed, the unemployment rate was still lower than it had been two years before. However, given the existence of lags in transmission from overall economic activity to the labour market, the full impact of the recession has probably not yet fully filtered through to the labour market. Even though the country emerged from recession during the second half of 2009, economic growth is unlikely to proceed at levels projected before the crisis. Could this possible (muted) turnaround transmit as slowly to employment gains as at the beginning of the last upswing? The important features of the labour market that influence the rate of job creation are considered here, in order to understand whether previous gains might be recovered after the crisis.

**The full impact of the recession has probably not yet fully filtered through to the labour market.**

### LABOUR MARKETS AND THE BUSINESS CYCLE

First, we consider factors that relate labour markets to fluctuations in economic growth. This aids us in understanding whether the current crisis will be short-lived in the labour market or whether it will continue for a much longer period, despite a slight improvement in the *overall* economic climate.

Figure 2.1.1: Labour market status (official definition), 1999–2009



Source: Authors' calculations from Stats SA (2009) *October Household Survey (OHS)*; Stats SA (2001a–2007b) *Labour Force Survey (LFS)*; Stats SA (2008Q1–2009Q1) *Quarterly Labour Force Survey (QLFS)*

Workers are employed to produce the goods and services that are sold by firms to consumers. During recessions, consumers temporarily cut back on their purchases, so that typical firms face lower turnover and are forced to cut costs to maintain viable business operations. Some workers lose their jobs, whereas others are forced to accept wage reductions in order to remain in their current positions. In most countries, aggregate wages and employment levels decline during recessions (Basu & Taylor 1999); however, employment usually drops before wages do.

Many reasons exist to explain why wages may not decrease (or do so slowly) rather than jobs being lost during periods of poor economic performance. Two are of relevance here. Firstly, there is an inherent asymmetry between the desires of the currently employed (labour market 'insiders') and the unemployed ('outsiders'). Insiders prefer wage levels to remain high, while outsiders are willing to accept lower wages at which it becomes viable for firms to start rehiring workers. Since the views of the outsiders are not represented when trade unions and employers negotiate over worker remuneration, wages are slow to fall during times of low labour demand. This point was first developed by Lindbeck and Snower (1984) and Blanchard and Summers (1986). Since then, several empirical studies have found that unemployment is higher and more persistent in countries

with institutional features that increase the bargaining power of insiders, such as greater trade union presence or higher unemployment benefits (see Nickell & Layard 1999; Booth et al. 2000). This is an important consideration for South Africa, where many wages have been bargained *upwards* during the current crisis. The likely impact is that those outside the workforce will stay there for longer, and intensify the duration of the unemployment impact of the recession.

Secondly, many of the skills acquired during employment are job-specific and, therefore, are worth little to the worker after retrenchment. During a prolonged period of unemployment, workers are likely to suffer a 'depreciation of human capital', as new technologies or production techniques make aspects of their education and skills obsolete. Some employers interpret protracted periods of unemployment as a negative signal of a person's productivity, which reduces the likelihood of such a person being rehired. The implication is that the probability of finding work is a negative function of the duration of a person's period of unemployment. Thus, it is imperative that retrenched workers are returned to the workplace as fast as possible to minimise the long-term impact of negative economic shocks. This consideration is important in evaluating the South African government's current training lay-off policy, which

During a prolonged period of unemployment, workers are likely to suffer a 'depreciation of human capital', as new technologies or production techniques make aspects of their education and skills obsolete.

has precisely these aspects in mind.

When combined with a large, negative demand shock, the effect of real wage rigidities can be substantial. Blanchard and Wolfers (2000) explain that the high current unemployment rates in Europe originated from an interaction between the negative economic shocks of the 1970s and the above-mentioned rigidities. Clearly, then, the decreased product demand that accompanies the financial crisis can have profound implications for the South African labour market well into the future, despite a recovery in economic growth. This is particularly true in the context of wage *increases* (and not simply rigidity), which will not only prevent outsiders from finding employment, but could fuel job destruction.

## JOB DESTRUCTION AND CREATION

Job creation and job destruction are simultaneous features of every labour market, both in good times and in bad. The lower levels of employment during a recession may result from one of two possibilities: either the speed of job losses may increase, or the rate at which new vacancies are created may decline. If existing jobs are lost at a faster rate than new ones are created, then employment levels decline. Bhorat (2009a, 2009b) documents the highly worrying acceleration in retrenchments leading up to the country's entry into recession. However, this evidence does not consider the role of declining job creation. Cahuc and Zylberberg (2001) discuss the features of these job flows over the business cycle: usually, job creation is only mildly responsive to good economic times and slows down moderately in downswings. Job destruction is strongly related to downswings, but slows down quickly in good times. Usually, therefore, the higher share of unemployed workers observed during recessions is the result of a large increase in the number of workers exiting employment, compared to the relatively minor contribution of slower absorption of the unemployed. Pissarides (2000) demonstrates that the observed equilibrium unemployment rate is simply a function of the rates of job generation and destruction. Which of the two – job losses or declining job creation – has resulted in the lower employment levels

in the current South African recession? Both possibilities have different implications for policy decisions and require separate analysis.

In the case of large-scale job losses, the focus should fall on retaining existing jobs. The South African government embarked on such a response, with the introduction of a training lay-off scheme (RSA 2009). President Zuma announced the creation of a R2.4 billion National Jobs Fund to avert job losses. Employees facing retrenchment are offered 50 per cent of their wage while being trained in new skills, pending a return to their positions in the workplace when the effects of the recession have eased and companies are able to take on workers again. The intended impact is manifold: the lay-off remains temporary, workers are equipped with better basic skills and the burden does not lie on companies to carry excess workers on their payrolls during the slump.

However, this policy is sterile in addressing the concerns of outsiders. When declining levels of job creation dominate the rising unemployment trend, the skills development of insiders does not make provision for outsiders or skills development at large. Admittedly, this is a long-term issue that has been highlighted by the Accelerated and Shared Growth Initiative for South Africa (ASGISA). However, the recession may have exacerbated the problem, so that those outside of the workplace have an even smaller chance of finding a job, and become more marginalised. Several factors, of which wage rigidity is primary, could inhibit the rate of job creation. The large numbers of new entrants looking for their first jobs during a time of recession are at particular risk (Bhorat, 2009a). Indeed, this group already displays a large risk of ongoing unemployment and finds it difficult to break into the labour market (Burger & Von Fintel 2009). Hence, the impact of unemployment insurance and the Jobs Fund is limited for this group, with job creation rather than job protection still demanding attention.

Bhorat (2009b) indicates that 36 per cent more firms retrenched workers in 2007–2008 than was the case in 2006–2007. Given that most of these lay-offs occurred in small firms, it is evident that the Job Fund is a well-timed and well-targeted intervention. This section of the paper explores the dimensions of both job creation and job destruction since the start of the crisis. The ability to follow individuals over time in the *Quarterly Labour Force Survey* allows for the analysis of worker transitions, both from unemployment into employment (job creation) and from employment into unemployment (involuntary job destruction).<sup>1</sup> Here, movements in labour market status from one quarter to the next are considered. Movements from the first to the second

quarter of 2008 are compared to transitions registered from the last quarter of 2008 to the first quarter of 2009. The first is a pre-recession period, albeit in the middle of the international crisis. The second period marks the beginning of the official recession in South Africa.

It is apparent from Figure 2.1.2 that the overall proportion of individuals who retained their jobs increased from 90.5 per cent to 92.3 per cent, while a lower proportion of individuals who had been employed moved into unemployment (from 4.3 per cent to 3.9 per cent). These are high rates of job destruction; however, it is evident that at the start of the recession they already had started to decline marginally, or, at most, did not accelerate. Given the large increase in job losses up to the beginning of 2008 (Bhorat 2009a), it appears that this impact was most severe in the period just prior to the official start of the recession, but that job shedding may stabilise tentatively from this point on if all else remains the same.

Which industries were most affected? Bhorat (2009b) indicates that mining, manufacturing and construction registered the highest increases in retrenchments since 2006, while retail and finance showed moderate increases. It is evident, therefore, that the primary and secondary sectors are most prone to job destruction in the downturn. The important aspect, however, is that the ability of the unemployed to enter particular industries has become more difficult. At the beginning of 2008, 2.6 per cent of the unemployed were able to find jobs in manufacturing, while this figure declined to 1.2 per cent at the end of 2008

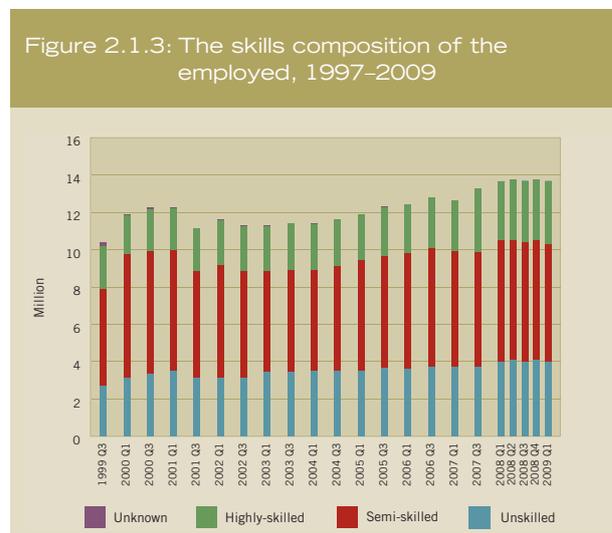
(see Figure 2.1.4). This is the result of declining export performance in the face of poor international demand during the crisis. For retail, a similar picture emerges: this industry was the quickest ‘absorber’ of the unemployed (at 4.3 per cent) at the beginning of the period, while the pace slowed down to 2.9 per cent by the start of the recession.

To understand the target of the Job Fund, it is necessary to consider which occupational skills categories are more prone to job destruction. The demand for labour has changed over the long term from unskilled to skilled workers, in accordance with the evolving production structure of the economy (Bhorat & Hodge 1999). This indicates that job creation for the unskilled has declined over the long term, but it may also have had implications for unskilled job destruction at the onset of a recession. Figure 2.1.3 illustrates that, even during the crisis, the proportion of the employed in highly skilled occupations continued to rise, reaching a high of 24.6 per cent in the first quarter of 2009. From the start of the upswing in 1999, the number of unskilled jobs increased, constituting close to 30 per cent of the employed since 2001. The combination of economic growth and the influence of labour unions shielded the employment share of the unskilled.

However, in the first quarter of 2009, when the recession started, approximately 80 per cent of jobs that were lost were registered amongst unskilled occupations. This contrasts with the marginal increase in the number of skilled jobs in the same period. Evidently, highly skilled occupations remained protected, while the relative security of unskilled jobs disappeared once the recession hit. Are these developments



Source: Authors' calculations based on Stats SA QLFS (2008Q1–2009Q2)



Source: Authors' calculations from Stats SA (1999) OHS; Stats SA (2001a–2007b) LFS; Stats SA (2008Q1–2009Q1) QLFS

dominated by greater destruction of unskilled jobs or more sluggish creation of new unskilled vacancies?

For those who were initially in highly skilled occupations, the movement into unemployment remained low and stable across the period (see Figure 2.1.2). More semi-skilled jobs were retained in the deeper end of the crisis, with marginally fewer moves into unemployment (from 4.8 per cent to 3.9 per cent of those in semi-skilled occupations). This picture suggests that skilled and semi-skilled jobs were less likely to be destroyed as the downsizing played itself out. For unskilled workers, however, the risks appear to be more severe, with high rates of job losses. While more unskilled jobs were retained at the start of the recession than before, a higher percentage of the unskilled moved into unemployment (6.1 per cent in the later period as opposed to 5.4 per cent in the earlier period), which suggests that for this group there is slightly more volatility. It is not clear whether the full impact of the crisis has been registered for this group. In the light of this, it is evident that insulating the unskilled group with temporary training lay-offs has distinct merits.

Turning to job creation, Figure 2.1.4 shows the proportion of unemployed individuals who found a job in various occupations and sectors in the following quarter (2008Q2 and 2009Q1, respectively). Overall, it is evident that flows into the workplace slowed down dramatically from the beginning to the end of 2008, with only 13.5 per cent of the unemployed finding jobs in the subsequent quarter (compared to 18.5 per cent at the start of the period). The

### Highly skilled occupations remained protected, while the relative security of unskilled jobs disappeared once the recession hit.

proportion of individuals who remained unemployed rose from 58 per cent to 62 per cent over the period, showing that the recession has hit those without jobs hard, offering little prospect of entry into the workforce.

It is evident, furthermore, that the decline in job creation differs by the skill level of the occupation. A marginally lower proportion of the unemployed enter highly skilled occupations. However, the rate of semi-skilled and unskilled job creation declines substantially as the recession unfolds. The percentage of the unemployed able to enter unskilled positions declined from 8.3 per cent to 5.9 per cent (8.6 per cent to 6.3 per cent for the semi-skilled). Thus, it is evident that unskilled individuals are likely to leave the labour market faster, and are slower to return. What is of importance, however, is that policies such as the Job Fund were unlikely to insulate the unskilled outside the workplace from the recession, and that alternative possibilities should be investigated to draw unskilled workers back into the workforce. If job creation does not accelerate, the impact of the recession could prove prolonged and severe for this group. High wage bargains during the recession have been a pertinent constraint to the creation of new vacancies.

Figure 2.1.4: Job creation by occupational skill level and selected industries



Source: Authors' calculations from Stats SA (2008Q1, 2008Q2, 2008Q4, 2009Q1) QLFS

Indeed, reports indicate that public sector job creation has been frozen in the light of an 11.5 per cent average nominal increase, which beats inflation (Mkhabela 2009). In the private sector, wage increases have been lower – the average for the entire economy until September was 9.4 per cent (Mboweni 2009). Many workers in this sector have accepted cuts in the number of hours worked in order to preserve their jobs. Nevertheless, job creation has been stifled during the recession, and real increases in wages threaten the outlook for job creation.

### THE PROJECTED IMPACT OF THE FINANCIAL CRISIS ON OVERALL SOUTH AFRICAN EMPLOYMENT LEVELS

The preceding sections reveal that job creation is a key constraint to the reintegration of outsiders into the labour market. Given that the creation of new vacancies has slowed dramatically, coupled with high wage demands, it is evident that the economic downturn could have a long-lasting effect. We now turn to estimating the potential impact that this period could have on future employment levels. To do this, economic growth projections using the pre-crisis trajectory are compared with those adjusted for the impact of the crisis. Economic growth is converted to employment growth. The difference between the two projections indicates the likely long-term impact that current events will have.

One of the few empirical regularities of international income dynamics is exploited here: the share of total income that accrues to workers is more or less constant over the medium to long run. This was the main motivation behind the development of the production function popularised by Cobb and Douglas (1928). Kaldor (1961) included it as one of his six stylised facts of economic growth. More recently, Gollin (2002) demonstrated that labour income shares across countries are very similar once certain measurement issues are addressed.

If labour's share of income is constant, then any change in total income leads to a change in the wage bill in the same proportion. Since the wage bill is just the product of total employment and the average real wage, a 10 per cent decrease in real GDP, therefore, coincides with some combination of wage cuts and falling employment that results in a 10 per cent decrease in the wage bill. For example, if labour market insiders can stop wages from decreasing at all, then the full burden of adjustment falls on employment, which would need to be reduced by 10 per cent. If workers are willing to accept wage cuts of 5 per cent, then only approximately 5 per cent of workers will be retrenched. It is not possible to know exactly how much insiders will be

willing to sacrifice during the downswing, but we can use recent trends as a benchmark for our projections.

Several studies have estimated employment elasticity of production for South Africa:<sup>2</sup> Van der Berg (2007) and Oosthuizen (2006) estimate it at 0.83 and 0.75, respectively, for the years between 1995 and 2004, whereas Altman (2007) implements an estimate of 0.5. Borat (2009a) finds that the output-employment elasticity increased from 0.16 between 1990 and 1995 to the high level of 0.8 between 1996 and 2005. He also finds that since 2000 the elasticity appears to be around 0.6, which is fairly but not excessively high by middle-income country standards.

The employment elasticity of output can be combined with output projections to obtain employment forecasts. The International Monetary Fund (IMF) undertakes rolling forecasts as part of its annual Article IV consultation with South Africa. The forecasts for real GDP growth from 2007 (representing the view without any knowledge of the crisis) and 2009 (projections taking the impact of the crisis into account) staff reports are compared in Figure 2.1.5 (IMF 2007, 2009). Clearly, the South African growth forecast was adjusted sharply downwards for the years 2008–2011 once knowledge of the crisis was incorporated. However, this is expected to return to close to pre-crisis projections by 2012. These forecasts are similar to those of recent consensus economic forecaster polls.

Combining the predicted income path with an employment-output elasticity of 0.75, it is possible to derive alternative forecasts for total employment – taking the crisis into account and considering a scenario for the crisis not having happened. The results are compared to actual employment as measured by the 1995–1999 *October Household Surveys* and the 2000–2007 *Labour Force Surveys* (Figure 2.1.6). The projection suggests that employment will decrease by 200 000 (or 1.5 per cent of total employment) during 2009, after which it will gradually start to increase again once the crisis subsides.

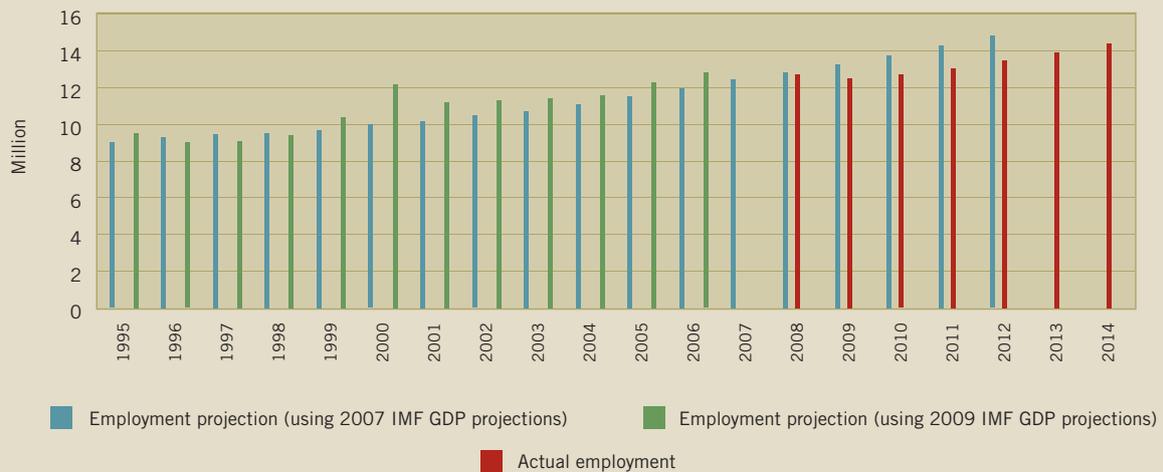
At first glance, the decrease in employment associated with the financial crisis seems to be relatively unimportant. A better gauge of the employment cost of the crisis is to compare expected total employment to what it would have been in the absence of the crisis. Figure 2.1.6 shows that by 2012 employment will be almost 1 000 000 lower than in the 'no-crisis benchmark', which is the result of decreasing production in 2009 and the impact that the crisis has on future growth. This picture suggests that while employment may grow soon after the recovery, the crisis will have a long-term effect.

There are a few reasons why the actual employment

Figure 2.1.5: Actual and projected GDP growth, 1993–2014



Figure 2.1.6: Actual and projected total employment, 1995–2014



trajectory could deviate from this projection. Firstly, the labour share of income may be trendless in the medium run, but could fluctuate over the business cycle. In fact, the cyclical variation in this variable is an integral part of the New Keynesian approach to estimating the Phillips Curve (for a South African application, see Du Plessis & Burger

2006). Furthermore, even if South African employers expect economic growth in line with the forecasts used above, risk-averse employers may choose to hold off on new hires until they have more certainty that economic growth will indeed recover in the way that they expect it to. This scenario is especially likely if the hiring and firing of workers is expensive,

and if the uncertainty around the expectation is particularly high.<sup>3</sup> Furthermore, given the concerns with currently high wage levels, the willingness of firms to create new vacancies could be further inhibited. Under these conditions, one could expect that the increase in unemployment would be driven mainly by slower job creation once the economy recovers, rather than increased job destruction, as indicated above. In this case, employment may decrease by more than 200 000 in the short run but also rebound more quickly than indicated here when economic growth starts to accelerate. However, all of these scenarios are dependent on the swift recovery proposed by the IMF, which has been questioned by a number of economists. In summary, then, these estimates of employment reduction represent a lower bound. The most recent data released suggests that well in excess of 480 000 jobs have already been lost in 2009.

## CONCLUSION

While declines in employment have not generated historically high levels of unemployment (as has happened in many other economies), even conservative estimates of the economic downturn's impact show that long-term consequences for the labour market could emerge. The key factor is the ability of the economy to re-absorb retrenched workers, and then to continue to create jobs for the long-term unemployed. It is evident that job destruction remains high, but increases have possibly levelled off (with most of the impact already having been registered in the run-up to the recession). However, sluggish job creation has not yet turned the corner. A distinct possibility exists that this could continue to deteriorate in the face of high wage demands and rigidity within the labour market, so that employers could remain hesitant to create vacancies even after their production levels have recovered. This suggests that while South Africa's Job Fund has a role to play in slowing down the trend of high dismissals, a longer-term unemployment impact could emerge if the re-absorption of those that have already suffered job losses does not accelerate. This relies on factors other than implementing training lay-offs for the current workforce. However, the recession appears to have increased the marginalisation of those who are outside the labour market. The vulnerability of unskilled outsiders

While declines in employment have not generated historically high levels of unemployment, even conservative estimates of the crisis's impact show that long-term consequences for the labour market could emerge.

suggests that high wage demands in occupations that usually absorb these individuals could continue to exclude them from the workplace, and that training outside of the labour market must maintain its emphasis. It is clear, therefore, that policy that tackles the more fundamental issues facing the labour market (such as skills development of outsiders) should address simultaneously the additional risks induced by the recession. However, given that these interventions are long-term in impact and that employment creation tends to follow economic growth with a considerable lag (Burger & Von Fintel 2009), it is evident that non-labour market solutions are required to alleviate the immediate impacts of the recession on the unemployed. This includes the current safety net of social grants that have effectively alleviated poverty. While the immediate policy response (the Job Fund) is suitable, it has no power to influence the growing group of outsiders that is being excluded from the labour market. Rigidities are preventing what could be the quicker recovery in employment growth that is dearly needed to counter the labour market's long-term deficiencies.

## NOTES

1. The QLFS has a rotating panel design, which allows for specific households to be followed in four consecutive surveys before being replaced by other households. Here, we are interested in tracking individuals' (and not households') experiences. Given that the individuals in each household could be different in time and that individuals are not explicitly tracked, we run the risk of not connecting the same individuals in concurrent waves of the survey. However, we apply certain criteria here to ensure that the data remain clean. We check that individuals are of the same gender and race, and that they do not age more than two years over the time period. This entails that we exclude approximately 20 per cent of the sample in each period. Given that we lose similar proportions of individuals in each period, bias in the transition probabilities is proposed to be minimal.
2. This is a measure of responsiveness of employment generation to economic growth. A figure of 0.75 indicates that as GDP increases by 1 per cent, employment will grow by 0.75 per cent.
3. In effect, this will mean that the employment-output elasticity may be far lower than 0.75, so that possible economic growth will not translate into as many gains in employment to counter past job losses



How safe is  
your Job?  
Join COSATU

# analysis

## DRAFT EXPANDED PUBLIC WORKS PROGRAMME: A MAJOR ROLE IN REDUCING UNEMPLOYMENT AND POVERTY?

Anna McCord and Charles Meth

### INTRODUCTION

The Presidency's draft anti-poverty strategy places strong emphasis on public employment programmes as an important supplement to efforts to create jobs in the formal economy. Drawing on two recent articles by Meth (2009a, 2009b) and recent work by McCord, this paper assesses the contribution that the Expanded Public Works Programme (EPWP) would make to achieving the overall goal, with particular reference to the objective of halving poverty and unemployment by 2014.

For many years, it has been asserted by senior politicians that both unemployment and poverty will be halved by 2014 (the twentieth anniversary of democracy). Recognising the limits of the labour market's ability to foster significant increases in new job creation, the task of supplementing labour market growth, and sustaining it over time, has fallen to the EPWP, Phase 2 of which was announced recently by the Department of Public Works (DPW). In the struggle to achieve the 2014 goals, a key role is envisaged for the EPWP. The fact that the country is not able to shield itself (entirely) from the effects of the global financial crisis, and the rising unemployment reported in the *Quarterly Labour Force Survey (QLFS)* for the first and second quarters of 2009, however, challenges the assertion that unemployment (and, therefore, also poverty) can still be halved by the target date, even with employment creation supplemented by the efforts of the EPWP.

Recent work modelling the labour market is presented in this paper to inform an assessment as to whether there is any likelihood that the unemployment-halving goal can be achieved by 2014, and what the contribution of the EPWP might be in reaching this goal. The paper also questions what achieving the 2014 objectives would mean in terms of poverty and unemployment from a socio-economic, rather than an exclusively macroeconomic, perspective.

### GOVERNMENT OBJECTIVES

Exuberant government statements relating to the potential of achieving the goal of halving unemployment have been tempered in recent months by less sanguine comments, questioning whether this will be possible by the target date of 2014. More ambitious pronouncements have included the assertion that:

Our second decade of freedom will be the decade in which we radically reduce inequality and virtually eliminate poverty. We know now that we can do it, working together around an initiative which has the support of the nation. (Presidency 2006: 16)

Given that inequality and poverty reduction in South Africa depends very heavily on the reduction of unemployment, major strides in reducing unemployment would have to be achieved rapidly in the coming years. The claim above contrasts with the more sober sentiments expressed in the recently published Green Paper on National Strategic Planning:

Over the past fifteen years, government has made significant progress, most critically in establishing sound and credible institutions and in extending basic services to millions deprived too long of these necessities. A stable economic platform has enabled rising investment, rising employment and a steady reduction in the proportion of people living in poverty. Nevertheless, the challenges remain monumental. Unemployment remains unacceptably high, poverty is rife and opportunities are still skewed. Two striking weaknesses in government are the lack of a coherent plan and poor coordination. (Presidency 2009a: 4)

These two statements exemplify the cognitive dissonance at the heart of the debate in South Africa, which is manifested

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in the co-existence of an awareness of the severity of the problems of unemployment, poverty and inequality, and the apparent belief that halving unemployment and poverty by 2014 (one of the government's highest profile domestic endeavours) is possible.

### IMPACT OF THE FINANCIAL CRISIS

Over the past year, the economic crisis that has engulfed the world has destroyed the growth spurt essential to any hope of achieving the unemployment- and poverty-halving goals. In mid-April 2009, for example, a statement in the Accelerated and Shared Growth Initiative for South Africa (ASGISA) Annual Report for the year 2008 informed readers that:

the original AsgiSA target of growing at an average rate of 6% between 2010 and 2014 now may appear implausible. In turn, the target of reducing poverty [sic] by half to 14% or less in 2010 [sic] may appear to be endangered, and possibly also the target of halving poverty between 2004 and 2014. (Presidency 2009b: 4)

Despite this, the government holds fast to the 'halving unemployment and poverty' stance. The Minister of Public Works oozed optimism at the unveiling in April 2009 of Phase 2 of the EPWP, when he reportedly said of the government's halving unemployment goal that: 'It's going to take a lot of work, it needs a lot of dedication and energy but I think it's achievable by 2014, I'm confident...'<sup>1</sup>

This was followed in July 2009 by the slightly more tentative statement by Trevor Manuel (now Minister for National Planning in the Presidency), in the briefing on the Medium-term Strategic Framework (MTSF), to the effect that: 'In this MTSF period, we aim to meet our target of halving poverty and unemployment by 2014.'<sup>2</sup>

### THE EPWP AND THE ADEQUACY OF SOCIAL PROTECTION FOR THE WORKING-AGE POOR

Despite the continued official optimism regarding the attainment of the 2014 goals in the current financial climate, a more fundamental challenge to their realisation was sounded in the Green Paper on National Strategic Planning prepared by the newly created Ministry for Planning in the Presidency. The opening paragraphs of the preface, written by Minister Manuel, have this to say:

Lack of a coherent long term plan has weakened our

ability to provide clear and consistent policies. It has limited our capacity to mobilise all of society in pursuit of our developmental objectives. It has hampered our efforts to prioritise resource allocations and to drive the implementation of government's objectives and priorities. In addition, weaknesses in coordination of government have led to policy inconsistencies and, in several cases, poor service delivery outcomes. (Presidency 2009a: 1)

It could be argued that the ambition of halving unemployment and poverty by 2014 is one of the victims of the 'lack of a coherent long term plan'.

Under the heading of 'A long term vision for development', the Green Paper spells out a list of desirable features for the country of the future. Referring to the MTSF, it says that:

in broad terms, South Africa Vision 2025 could project a society in which: Able-bodied citizens and all work-seekers have access to decent jobs, workers' rights are protected and social security measures are comprehensive enough to cover all citizens in need. (Presidency 2009a: 18)

This statement regarding 'citizens in need', especially the able-bodied among them, points to the single most refractory social protection problem in South Africa (and everywhere else in the world). The inadequacy of provision for the able-bodied poor of working age is the hole that has to be filled if a truly comprehensive social protection system is to be created.

It will be decades before access to decent jobs, or indeed any jobs, becomes universal in South Africa. In the meanwhile, millions of people will require social protection, since they are unable to find employment in the labour market. Thus far, the government has failed in its attempts to address this problem; antipathy towards social grants for the able-bodied unemployed (one of the only feasible means of alleviating their poverty as they wait for economic growth to rescue them) has meant that support for this group is limited essentially to participation in the EPWP. Even in its much-expanded form, the EPWP, if successfully implemented, will reach only a small minority of those in need, offering a single episode of employment (of three or four months, on average) for most participants. There is, however, a new initiative tacked onto Phase 2 of the EPWP, the Community Work Programme (CWP), which could make a significant dent in unemployment and poverty. Before discussing this venture, we say a little more about the ANC's approach to social protection for the working-age poor, in terms of its policy of choice, the EPWP.

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In no other country facing similar challenges of mass unemployment and chronic poverty has a programme such as the EPWP, offering short-term employment for a small fraction of those seeking work, been adopted as the national policy response to the needs of the working-age poor. In stark contrast to the EPWP, the Indian national public works programme, the National Rural Employment Guarantee Act (NREGA), guarantees employment (of 100 days) on an annual basis to *all* citizens who seek it, in terms of a legislative commitment confirming the *right* to employment and the state's obligation to provide it for all in need, rather than an arbitrary subset of those in need (as in South Africa). Under the NREGA, the state is legislatively bound to provide employment or, failing that, financial compensation, ensuring that those eligible receive some form of support, with the state acknowledging its responsibility to provide support to the working-age poor.

While the EPWP and the NREGA are both public works programmes, nominally sharing common social protection objectives, they represent conceptually divergent approaches. The South African programme confounds any notion of the *right* to social protection for the able-bodied poor, implicitly excluding the majority of this group from support. This is at odds with the 'comprehensive social protection system' to the creation of which the South African government regularly commits itself, and which it is bound to provide in terms of the Bill of Rights in the Constitution.

The brief spell of employment offered under the EPWP is akin to the short-term employment opportunities provided after natural disasters in other parts of Africa and Asia, offering income during a period of temporary labour market disruption, until things return to normal. It is not the kind of programme that conventionally would be implemented in response to chronic unemployment. Drawing on cross-country experience, World Bank experts stress the linkage of public works programmes to transient rather than chronic poverty, arguing that 'public works are essentially a temporary safety net and should never be used as a permanent escape route from poverty' (Subbarao et al. 1997: 168).

The implication of this statement is that EPWP-style programmes are appropriate only where poverty is transient

and a temporary safety net is required, the underlying assumption being that the benefit period is limited to the period of the wage transfer.

Given the ruling party's antipathy to social grants for the working-age poor, the government is pressing ahead with its version of what is good for them, as the following statement, drawn from the policy discussion document produced for the ANC's 2007 National Conference, makes clear:

To respond to the plight of the poor who do not qualify for social assistance, government has set up Public Works Programmes to draw the unemployed into productive and gainful employment while also delivering training to increase the capacity of participants to earn an income once they leave the programme. (ANC 2007: 4)

The bland assumption that this will suffice to keep the wolf from the door of the poor, until economic growth can rescue them, takes no account either of the ability of growth to do so or of the limitations of the EPWP to 'respond to the plight of the poor who do not qualify for social assistance'. Although

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not saying so in as many words, the EPWP management, by contrast, seems all too aware of the limits of the programme. On the EPWP web site, for example, one finds the following acknowledgement:

The EPWP will not solve the structural unemployment problem. It is merely one element within a broader government strategy to reduce poverty through the alleviation and reduction of unemployment.<sup>3</sup>

Warming to the topic, the EPWP's *Five Year Report* calls for the EPWP to be evaluated against the backdrop of mass structural unemployment, none of the causes of which the programme was intended to address:

Critically, while it provided an important avenue for labour absorption and income payment to poor households in the short to medium term, the EPWP was not designed to be a policy instrument to address the structural

nature of the unemployment crisis. Stated differently, the objective was not to create sustainable employment opportunities. Rather, PWP's were viewed as a means of creating a high volume of employment in the short term. (DPW 2009a: 59)

Further on in the *Five Year Report*, the limited reach of Phase 1 of the EPWP is offered as a rationale for the enlargement proposed for Phase 2:

While the EPWP reached its goal of creating one million work opportunities, this effort only reached 11% of unemployed people in the 2007/08 financial year.<sup>4</sup> And while there has been a general decline in the rate of unemployment during the first years of the EPWP's existence, the scale of the programme needs to be expanded significantly in order for it to make its contribution to the government goal of halving unemployment by 2014. (DWP 2009a: 137)

The claim above about 'delivering training to increase the capacity of participants to earn an income' is made to substantiate the assertion that the EPWP is not merely an employment-creation programme, but, like successful active labour market policies (ALMPs) elsewhere, gives workers experience and skills that will enable them to take up employment in the open labour market once they 'exit' the programme. Yet at least 70 per cent of participants in Phase 1 of the EPWP received either no training at all, or training of such a trivial nature that it made little or no difference to their income-earning capacity. This is in line with international experience. Having reviewed almost two hundred evaluations of ALMPs, Betcherman, Olivas & Dar (2004: ii) conclude that public works programmes could be 'an effective short-term safety net, but public works do not improve participants' future labour market prospects'.

These findings have been reflected in other international studies (see, for example, Martin & Grubb 2001). Several studies in South Africa relating to EPWP projects, including Working for Wetlands and the Gundo Lashu and Zibambele programmes (Ndoto & Macun 2005; McCord 2004) have found that limited and poor quality training, combined with lack of employment opportunities in the formal and informal sectors, have meant that the 'activation' component of the EPWP has been marginal at best. This implies that the only significant labour market impact of the EPWP is the direct employment component.

One of the outcomes of an internal review of Phase 1 of the EPWP is that Phase 2 will be 'structured with stronger

focus on employment (less emphasis on training, exit strategies and enterprise development)' and 'training [will be] provided [only] by EPWP where important to maintaining service standards/enables people to do work' (Lieuw-Kie-Song 2009: 17).

As a result of persistent criticism of Phase 1 of the EPWP (see McCord 2007), and engagement with the international debate around employment guarantee schemes (EGSs),<sup>5</sup> the Presidency has initiated a 'complement' to the EPWP, in the form of a CWP. Field-tested in four very poor communities, the CWP has shown some promise. Although it does not have an official budgetary allocation, in the period June–December 2009 it is expected to grow from three or four sites with 1 000 participants in each to 50 sites each involving 1 000 participants. Growth thereafter is expected to be exponential, setting in place 'the institutional architecture required to deliver a minimum employment guarantee [100 day's paid work per annum] in SA' (Philip 2009: 13).

The programme represents a major new departure. It represents the first step on a road that could lead to a national EGS, which, reduced to its essentials, is a promise by the state to act as employer of last resort.

Laying out the implications of the pilot CPW programmes outlined above, and the ethical challenge represented by the adoption of the mainstream form of EPWP in terms of the effective exclusion of the majority of the working-age poor, the aggregate impacts of the direct employment component of the EPWP and the CWP are now examined.

## EMPLOYMENT TARGETS AND THE EPWP

To set the scene, let us spend a few moments looking in a little detail at the impact of the financial crisis on South Africa's labour market, as depicted in the most recent *QLFSs*. Although some controversy surrounds the recently instituted *QLFS* (see Meth 2009b), it has the official unemployment rate for the first quarter of 2009 climbing to 23.5 per cent from 21.9 per cent in October–December 2008,<sup>6</sup> and remaining at this level in the second quarter of 2009.<sup>7</sup> After the first-quarter *QLFS* figures were published, the quarterly GDP figures appeared, indicating a substantial quarter-to-quarter fall, and the National Treasury concluded that this year's growth target (1.2 per cent per annum) was 'unlikely' to be achieved.<sup>8</sup> There never was agreement on just how much growth was required for the government's poverty- and unemployment-halving goals to be reached (a figure of 5–6 per cent per annum, sustained year after year, enjoyed a certain popularity). The current negative economic environment offers little hope that such a rate could be attained before

2012. In short, the economic crisis has put paid to what little chance there ever was of achieving the goal.

### The EPWP Phase 2

Phase 2 of the EPWP aims to provide over 500 000 'work opportunities' in 2009/10, rising to over 1.5 million for the year 2013/14. Given the short-term, temporary nature of EPWP job opportunities, this translates into 210 000 and 600 000 'full time equivalent' jobs (FTEs) respectively per annum. As in Phase 1 of the programme, these 'work opportunities' are to be created across four sectors, social, economic, infrastructure and environment, with the majority of the jobs (72 per cent) being in the first two sectors. Employment duration in the former averages four months, and in the latter, three months. Under Phase 1 of the EPWP, the creation of 300 000 'work opportunities' during the six months from April to September 2008 was reported (DPW 2009b: 7). The rate at which the programme has created 'work opportunities' has increased over time. However, this does not necessarily imply that the ambitious targets planned for the later years of Phase 2 of the EPWP can be met.

Not much more than the crude aggregate numbers reproduced above is available for review, although some detail about proposed employment targets for EPWP Phase 2 was given in the ASGISA annual report for 2007/08 (published in mid-April 2009). The report states that:

From 2009 to 2012, R4.2 billion has been allocated to Phase Two of the EPWP. This will include a new EPWP grant incentive for municipalities aimed at providing them with incentives to increase the number of employment opportunities on infrastructure projects. During EPWP Phase One, municipalities did not significantly adopt labour-intensive approaches to infrastructure implementation.

*The extension of this programme targets 400 000 full-time equivalent longer-term jobs in the social and municipal services sectors, home-based and community care, as well as project-based employment in infrastructure and environmental protection, in adult literacy initiatives and in programmes delivered through non-governmental organisations. A new modality for delivery will be the Community Work Programme in which unemployed poor people will be employed for two days a week on communal projects developed and agreed to by poor communities. (Presidency 2009b: 57, emphasis added)*

The first of these paragraphs implies the introduction of a substantial employment subsidy over the Medium Term Expenditure Framework (MTEF) period 2009–2012. Such an allocation is to be found in the expenditure estimates in the 2009 Budget for the National Public Works Programme, which have R353 million in 2009/10, R954 million in 2010/11 and R1.9 billion in 2011/12 set aside for 'transfers and subsidies to provinces and municipalities'. In addition, over the period 2009–2012, about R730 million will be transferred to 'non-profit institutions' (National Treasury 2009: 13).<sup>9</sup> These large sums mark another new departure in the life of the EPWP, with an implied employment subsidy component, in an attempt to create incentives for labour intensification and to provide resources to cover any cost premium this may imply (although, critically, there is no evidence of any technical work to estimate the cost of such a premium, or the implications for the fiscus of any efficiency losses that may accrue from such a shift).

The introduction of such an incentive represents, in part, an attempt to overcome the resistance experienced at provincial level under Phase 1 among technical staff whose scepticism about the feasibility and desirability of shifting from capital- to labour-intensive methods resulted, in many cases, in a passive resistance to labour intensification (Mabulo 2003; McCord 2006; Karuri, McCord & Hemson 2007).

The first phase of the EPWP aimed at providing one million job opportunities over five years, and arguably delivered about 1.4 million, although concerns regarding the nature of EPWP 'jobs' were highlighted in the EPWP mid-term review, which questioned the extent to which practices of 'renaming' existing activities as 'EPWP' projects and worker substitution might be exaggerating the actual number of new jobs created under the programme (Karuri et al. 2007).<sup>10</sup> Phase 2 is much more ambitious.

### Unclear origins of the employment targets

The basis for the estimates of employment included in EPWP Phase 2 are not explicit, and may be founded on an extrapolation of Phase 1 into the future, with relatively slow growth between year 1 and year 2 giving way to faster growth in succeeding years. What little information there is in the public domain does not allow one to ascertain whether or not the EPWP employment targets are linked with the major infrastructural investment programme under which projects have already been identified, despite the fact that these programmes are central to the achievement of EPWP employment targets. There are limits to the extent to which unskilled labour may be substituted for skilled labour and/or machinery. It is not evident that the changes that could

feasibly be made to factor proportions in a variety of projects have been calculated, and whether the employment estimates included in the EPWP projections are consistent with the planned activities.<sup>11</sup>

Research into factor intensity is key to assessing the feasibility and cost of the programme – it should have been carried out before Phase 2 was launched. When further details on Phase 2 become available, efforts should be made to ascertain whether or not this has been done. Until it is forthcoming, judgement on the likelihood of the programme meeting its ambitious goals should be suspended, and questions regarding fiscal implications and potential efficiency losses of shifting to labour intensification should be raised. This is to ensure accountability and transparency. The cost and efficiency of this approach to social protection for the working-age poor should be assessed, and compared to that of alternative approaches, to promote appropriate policy selection in future years. In the absence of such calculations, the EPWP remains a fiscal leap in the dark, with uncertain impacts and unknown costs, rendering any attempt at cost effectiveness assessments largely impossible.

### HOW MUCH CAN EPWP PHASE 2 CONTRIBUTE TO THE 'HALVING' GOALS?

It is clear from the statement made by the Minister of Public Works upon announcing the inception of Phase 2 of the EPWP (see above) that there is an expectation that the programme will make a substantial contribution to the government's goal of halving unemployment by 2014, a goal which implies an unemployment rate of 14 per cent. Two sets of effects of the pursuit of this goal may be distinguished. The first of these is the macro-picture generated by survey instruments such as the *QLFS* (changes in numbers unemployed and in rates of unemployment). The second, and more important, is the socio-economic impact of the implementation of the EPWP. These two questions are discussed below.

### WHAT CHANCE FOR A HALVING OF UNEMPLOYMENT?

The objective of Phase 2 of the EPWP is to create 500 000 'work opportunities' (about 210 000 full-time equivalent jobs) in the first year of operation. This notwithstanding, it is predicted that total employment (including the EPWP work opportunities) at the end of 2009 will almost certainly be lower, by several hundred thousand, than it was at the end of 2008. A key question is what the likely impact of the

creation of EPWP employment at the rate proposed will be in the years to 2013/14.

In 2004, a simple purpose-built model was created to calculate whether the goal of halving unemployment by 2014 could be met (Meth 2004). An updated version of that model has been used to calculate what unemployment rates and levels may be in 2014 (Meth 2009b), assuming that the planned 'work opportunities' for Phase 2 of the EPWP materialise.<sup>12</sup> Its key assumptions and findings are summarised below. To estimate unemployment rates, a range of assumptions, including possible rates of job creation in the wider economy and the rate of growth of the economically active population (EAP), had to be made, entailing the solution of a formidable set of data problems.<sup>13</sup>

The starting point for the analysis is the assumption that between 300 000 and 400 000 jobs are likely to be lost during the calendar year 2009; consequently, employment at the end of 2009/10 is assumed to be 13 336 000. The number of officially unemployed is currently 4 125 000, and participation rates are falling (from 57.5 per cent in the first quarter of 2009 to 56.3 per cent in the second), partly as the result of a significant increase in discouraged work-seekers.<sup>14</sup>

Of all the variables that together determine the number of jobs that have to be created to meet the halving goal, changes in the participation rate (the outcome of changes in the size of the working-age population, and the numbers of the economically active) have the largest impact. They are also the most volatile and difficult to predict. As far as changes in the number of the economically active are concerned, neither theory<sup>15</sup> nor extrapolation of past experience, that old standby, allow for the prediction of outcomes (levels of economic activity) with any accuracy. Generally, when economic growth picks up, so too does the rate of growth of the labour force (i.e. there is a tendency for participation rates to rise during periods of rapid economic growth, and to stabilise or fall slightly during downturns or slowdowns). Increases in employment associated with rising economic growth can cause unemployment rates to rise, presumably because the perceptions of the probability of obtaining employment among those who were previously inactive or discouraged change.

The modelling used four possible scenarios, varying the rate of economic growth and associated employment growth, and changes in the participation rate. To this was added the EPWP employment forecast under Phase 2. Underlying the 'optimistic' job growth prediction is the assumption that economic growth will reach 5 per cent per annum by 2012/13, and speed up thereafter. In addition,

the probability of the rate of growth of the workforce or economically active population (EAP) being slow must be regarded as very slender indeed. During the moderate growth spurt (one million new jobs in total) between September 2004 and September 2007, the rate of change in the size of the working-age population was almost 3 per cent per annum. This caused the participation rate to rise by 2.7 percentage points, from 53.8 per cent to 56.5 per cent.<sup>16</sup> Over the period September 2004–September 2006, the participation rate rose from 53.8 to 57.3 per cent (an increase of 3.5 percentage points).

Appendix 1 presents four scenarios based on different assumptions: a) possible rates of job creation – ‘optimistic’ or ‘pessimistic’, depending in the first instance on economic growth; b) the likelihood of the EPWP Phase 2 ‘work opportunity’ goals being met; c) the effect of introducing CWP’s to scale (assuming that there are 500 000 participants by 2012/13 and that, in any year, there is an attrition rate of 15 per cent of the previous year’s participants); and d) that growth rates of the EAP are responsive to perceptions among the unemployed (and many of the non-economically active) of the probability of obtaining employment (participation rates can rise rapidly during periods of fast economic growth).

In Scenario 1, even if economic growth (rising to 6 per cent by 2013/14) generates high employment growth, and the EPWP delivers its full complement of work opportunities, the goal of halving the official rate of unemployment (getting it down to 14 per cent) is not achieved, with the rate of unemployment remaining at around 18 per cent.

If significant CWP jobs are added, as in Scenario 2, the outcome is closer to the goal, resulting in an unemployment rate of 14.4 per cent. If the programme grows to the point where, by 2012/13, 500 000 people are drawn into the programme, and it continues growing, then, allowing for an attrition rate of 15 per cent, there may be 575 000 participants by 2013/14. If each is paid R60 per day, and all participants take up their full allowance of 100 day’s work for the year, then the wage cost would be about R3.5 billion for the year. Once administration and other costs are added, the full cost is unlikely to be below R4 billion for the CWP. If the programme succeeds in attracting more participants, that figure can be expected to rise, year by year.

Scenarios 3 and 4 give us a taste of what lies ahead if growth is less rapid, and if discouraged work-seekers are taken into account. Although these people are as much ‘out of work’ and desirous of a job as the ‘officially’ unemployed, the fact that they have not made attempts to seek work within the reference period (the past four weeks), means that

they are excluded from official estimates of unemployment (Scenarios 1 and 2). If economic growth is relatively slow, rising to 4 per cent by 2013/14 (‘pessimistic’ employment creation), and growth of the EAP is modest (Scenario 4), there will still be well over four million unemployed by 2013/14, and the unemployment rate would be in the region of 22 per cent, even with national implementation of the CPW complementing the work of the EPWP. Without the CPW, implementation of the EPWP alone would result in unemployment rates of over 25 per cent, leaving more than five million unemployed (Scenario 3).<sup>17</sup>

The state’s position on the introduction of a large-scale employment guarantee scheme along the lines of the NREGA is not known. It seems likely that once the CWP becomes more familiar at community level, demand for it will increase rapidly, but budgetary allocations have yet to be made. What will ensue then is anybody’s guess. Despite the potential of the CWP, it will not be able to absorb the poor in less than a decade, and the cost of introducing it will not be trivial. In the meantime, many among the poor will once more be called upon to be patient, in terms of waiting for support from the state. From an ethical point of view, such a request is problematic. Whether or not it is politically feasible is an open question.

### WHAT WOULD HALVING UNEMPLOYMENT MEAN IN TERMS OF POVERTY?

In the unlikely event of the 2014 unemployment target being achieved, there would still be too many unemployed people (almost three million by the official measure). Paradoxically, the government’s commitment to halving unemployment (and poverty) appears simultaneously to be both too ambitious and too modest. In short, even if the halving goal were to be achieved, the remaining problem would be sufficiently large to make all efforts to address it seem almost futile.

Even for those employed, the single episode of short-term employment, the limited training opportunities, the questionable impact of the assets created in terms of community development and employment prospects, and

**In the unlikely event of the 2014 unemployment target being achieved, there would still be too many unemployed people (almost three million by the official measure).**

the lack of integration with other developmental activities, render participation in the EPWP unlikely to have any significant or sustained social protection or poverty reducing impact. During the period of employment, it is probable that the depth of poverty of participating households will be reduced as a result of the additional income; interestingly, however, in a survey of households with PWP workers, the majority fell below the household poverty line even while participating in the programme (McCord 2004). There is no evidence to suggest that there will be sustained benefits, or any significant accumulation of monetary or other assets – when asked whether they had invested any of the capital received as wages from PWP employment, women workers in rural Limpopo laughed, saying ‘No...we have eaten our capital!’ (McCord 2004). This, in itself, is an excellent outcome, resulting in improved nutrition at household level. It argues, however, for increased modesty in terms of what can be expected of the provision of a single episode of employment to the working-age poor. The EPWP can deliver benefits, but the provision of support is inherently temporary, and coverage is extremely low.

For some of the poor, the CWP promises to change this – it remains to be seen, however, what will happen when attempts are made to scale up the programme to national level. The obstacles to be overcome, not least securing Treasury funding, are formidable.

## FUTURE OPTIONS

As argued above, employment cannot grow fast enough to reduce poverty at an acceptable rate. Under such conditions, the only reasonable policy response is to seek out means other than a focus on job creation to alleviate poverty.

The preamble to the section ‘On Social Security and Broad Social Development’, tabled at the ANC’s 52nd National Conference in 2007, read as follows:

8. We are building a developmental state and not a welfare state given that in welfare state [sic], dependency is profound.
9. Our attack on poverty must seek to empower people to take themselves out of poverty, while creating adequate social nets to protect the most vulnerable in our society.
10. Beyond poverty alleviation, interventions must seek to develop exit programmes that capacitate households and communities to empower themselves. It is the duty of the developmental state to achieve this.

**Employment cannot grow fast enough to reduce poverty at an acceptable rate. Under such conditions, the only reasonable policy response is to seek out means other than a focus on job creation to alleviate poverty.**

The relevant resolutions on social grants appear to be the following:

14. That a comprehensive social security net provides a targeted and impeccable [sic] approach in eradicating poverty and unemployment...
17. Grants must not create dependency and thus must be linked to economic activity.

This approach to social protection, as noted above, saw participants at the 2007 ANC National Conference throw the following sop to the working-age poor:

To respond to the plight of the poor who do not qualify for social assistance, government has set up Public Works Programmes to draw the unemployed into productive and gainful employment while also delivering training to increase the capacity of participants to earn an income once they leave the programme. (ANC 2007a: 4)

Unless the ANC ‘in conference’ is totally cynical, it must imagine, collectively, that the EPWP can have a significant impact on unemployment and poverty. Although, on occasion, the EPWP’s management may exaggerate the positive effects of the programme, said management seems not to labour under the illusion that the programme can address the structural unemployment that is the major cause of poverty in South Africa.

It bears reiteration that a strategy relying on the EPWP to address the needs of the working-age poor is not in any sense ‘comprehensive’. The majority of the working-age poor are excluded from the EPWP, and for those included, the benefits are essentially transitory, an inadequate response to chronic, mass poverty and unemployment. The hope that the EPWP will promote ‘activation’ in the context of chronic unemployment, exacerbated by recent developments in the global economy, is unlikely to be fulfilled. Although the millions of ‘work opportunities’ promised by Phase 2 will bring some relief, unless fortified by a large-scale

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employment guarantee scheme, the EPWP looks as though it is still plagued by the structural weaknesses previously identified by critics.

## CONCLUSION

Unemployment will not be halved by 2014, nor, in all likelihood, will poverty, unless a growth path can be engineered that combines rapid economic growth (and job creation) with slow growth in the participation rate (an unlikely marriage).

To achieve either would be an epic achievement, to achieve both requires little less than a miracle. Even if this happened, the residual poverty and unemployment would still be too high to be humanly or politically acceptable – there is an urgent need for policy review in these critical areas. With the CWP bolstering the EPWP, unemployment may get close to the target level for 2014. Even if it does, however, the many millions still excluded from adequate (or any) social protection constitute a rebuke to a government that has long claimed to put the interests of the poorest first.

## NOTES

1. See the article 'SA on track to halve unemployment by 2014' by Wendell Roelf in the *Mail & Guardian* online, 6 April 2009.
2. The full sentence from which this is drawn reads as follows: 'In this MTSF period, we aim to meet our target of halving poverty and unemployment by 2014 and, in conjunction with other priorities, to strengthen human capabilities, promote shared values and social solidarity and strive to reduce overall inequality.'
3. Statement downloaded on 12 July 2009 from the EPWP website home page: <http://www.epwp.gov.za/index.asp?c=Welcome>.
4. The figure of 11 per cent seems more than a little optimistic – by our reckoning, it is closer to 5 per cent (see Meth 2009a).
5. The NREGA programmes have been visited by South African officials working on the design of the EPWP.
6. See Statistical release P0210, 5 May 2009: v.
7. See Statistical release P0210, 28 July 2009: v-vi.
8. The National Treasury, putting on a brave face, offered the reassurance that 'the economy is expected to improve in the final two quarters of the year (press release available at: [http://www.treasury.gov.za/comm\\_media/press/2009/2009052601.pdf](http://www.treasury.gov.za/comm_media/press/2009/2009052601.pdf)). The press release was followed, the next day, by a statement from Lesetja Kganyago, Director-General in the National Treasury, to the effect that 'If we record zero growth this year, we would be doing very well.' Other commentators were less sanguine, one predicting a fall in GDP of 2.2 per cent in 2009 (see Mariam Isa in *Business Day*, 27 May 2009. In the comment section of that paper on the same day, a short piece appeared reminding readers that a large annualised quarter-to-quarter decline in GDP was a prediction, rather than an account of what actually happens to GDP over a year – thus, zero growth was still possible, despite the surprising first-quarter drop of 6.4 per cent (*Business Day*, 27 May 2009).
9. Note that the expenditure downloads of the expenditure estimates on the Treasury website are all in small files; thus, the page number given here will not be the same as the page number in the paper publication.
10. Detailed criticisms of Phase 1 of the EPWP are made in the mid-term review of the programme. These have not been published. Placing this document in the public domain would contribute to long-overdue public scrutiny of this controversial project.
11. Technical models to assess the amount of employment that can be generated through the labour intensification of government expenditure have been developed (see, for example, Phillips et al. 1995; McCutcheon 2001). Similar analysis of current infrastructure expenditure linked to the EPWP would be useful for assessing the feasibility of the proposed EPWP targets.
12. The recently published *EPWP Five Year Report* offers details about the number of 'work opportunities', and the number of full-time equivalent jobs (FTEs) that they represent, for each year of Phase 2 of the programme (DPW 2009a). Also provided are estimates of the distribution of 'work opportunities' (and FTEs) by sector for the 2009–2014 period (DPW 2009a). It is partly on the basis of these estimates that the simulations in the table in Appendix 1 below have been created.
13. For full details of the key assumptions used in the model, and how they were determined, see Meth (2009b).
14. Statistical release P0210, 28 July 2009, p.v.
15. The standard model for the theoretical centrepiece of labour economics, the work/leisure trade-off, is unable to say whether substitution effects dominate income effects, or *vice-versa*. Outcomes are, hence, indeterminate.
16. Estimated from Statistical Release P0210, 26 September 2005, p.2, and 27 March 2008, p.ii.
17. Interestingly, if the route to fast, job-creating economic growth could be found, the participation rate would be likely to rise rapidly in response – such a scenario would still leave many more than four million people wanting work in 2013/14, with an expanded unemployment rate of more than 21 per cent.

## APPENDIX 1: UNEMPLOYMENT IN 2013/2014

Scenario 1 CWP jobs excluded						
	Jobs created by economic growth	EPWP FTEs	CWP FTEs	EAP growth (% pa)	Unemployed (official)	Unemployment rate (%)
2009/2010	-300 000	210 000	0		4 173 000	23.8
2010/2011	300 000	260 000	0	1.0	3 998 000	22.6
2011/2012	400 000	360 000	0	2.0	3 852 000	21.4
2012/2013	500 000	500 000	0	2.5	3 663 000	19.8
2013/2014	600 000	680 000	0	2.5	3 345 000	17.7
<i>Conditions: Optimistic economic and employment growth, moderately fast EAP growth</i>						
Scenario 2 CWP jobs included						
	Jobs created by economic growth	EPWP FTEs	CWP FTEs	EAP growth (% pa)	Unemployed (official)	Unemployment rate (%)
2009/2010	-300 000	210 000	22 000		4 151 000	23.7
2010/2011	300 000	260 000	84 000	1.0	3 893 000	22.0
2011/2012	400 000	360 000	139 000	2.0	3 607 000	20.0
2012/2013	500 000	500 000	195 000	2.5	3 223 000	17.4
2013/2014	600 000	680 000	250 000	3.0	2 748 000	14.4
<i>Conditions: Optimistic economic and employment growth, fast EAP growth</i>						
Scenario 3 CWP jobs excluded						
	Jobs created by economic growth	EPWP FTEs	CWP FTEs	EAP growth (% pa)	Unemployed (expanded)	Unemployment rate (%)
2009/2010	-300 000	210 000	0		5 690 000	29.9
2010/2011	200 000	260 000	0	0.5	5 535 000	28.9
2011/2012	250 000	360 000	0	1.0	5 376 000	27.8
2012/2013	300 000	500 000	0	1.5	5 226 000	26.7
2013/2014	400 000	680 000	0	2.0	5 038 000	25.2
<i>Conditions: Pessimistic economic and employment growth, slow EAP growth</i>						
Scenario 4 CWP jobs included						
	Jobs created by economic growth	EPWP FTEs	CWP FTEs	EAP growth (% pa)	Unemployed (expanded)	Unemployment rate (%)
2009/2010	-300 000	210 000	22 000		5 668 000	29.8
2010/2011	200 000	260 000	84 000	0.5	5 430 000	28.4
2011/2012	250 000	360 000	139 000	1.0	5 132 000	26.6
2012/2013	300 000	500 000	195 000	1.5	4 787 000	24.4
2013/2014	400 000	680 000	250 000	2.0	4 349 000	21.8
<i>Conditions: Pessimistic economic and employment growth, modest EAP growth</i>						

Source: Authors' calculations from *Labour Force Surveys*; EPWP Phase 2 targets in DWP (2009); guesstimates in Philip (2009). For details, see Meth (2009)

# review

## POLITICAL INFLUENCE WITHOUT ORGANISATIONAL POWER: COSATU'S CONTESTED FUTURE

Sakhela Buhlungu

The recent 10th National Congress of the Congress of South African Trade Unions (COSATU) took place against the backdrop of the federation's recent successes on the political front and ongoing militant battles by its members for improved wages and working conditions. In a triumphalist assessment of its political role, the federation's *Secretariat political report* noted:

We will not speak of the political investment we have made since we stood up against the encroaching dictatorship and Zanufication of the ANC in the late 1990s and until the triumph of 2007 in Polokwane, where our ideological foes met their Waterloo. When the historians write honestly about the contributions the workers movement made in this period we are certain they will speak in glowing terms about COSATU. (COSATU 2009: 65)

The above assessment, however, tells only one side of the story about COSATU and the workers' movement, of which it is a major component. An appraisal of the federation's activities shows that the workers' movement, in general, and COSATU, in particular, are facing contradictory processes of increasing political power, on the one hand, and diminishing organisational power, on the other. Since the revival of black trade unionism in the early 1970s, the black labour movement has been spectacularly successful in building organisation and using that to extend its power and influence in the workplace and in broader society. At the height of the anti-apartheid struggle in the 1980s, black unions were the only internal oppositional force that had the legal space to organise and a formidable organisational infrastructure that could engage successfully with employers and the state. The unions also provided political and intellectual support to the liberation movement. They came up with the idea of a reconstruction and development programme, and later scores of unionists joined the new democratic parliament and became leading politicians.

However, since the beginning of the democratic transition,

unions have been losing organisational power as hundreds of leaders have left for politics and business, thousands of shop-floor activists and leaders have been promoted out of the union, and the vibrancy of the movement has been sapped by the effects of class formation and global economic restructuring. The global economic downturn that began in 2007 has exacerbated this decline, as unions continue to haemorrhage membership (Enlsin-Payne 2009), a phenomenon that raises questions about the long-term prospects of survival of this model of working-class organisation. This article considers the long-term effects of this loss of internal power and the theoretical implications of these contradictory trends in the South African labour movement. It begins by presenting what appears to be a paradox of the victory achieved by the South African unions, particularly COSATU, in the 1990s (see Buhlungu 2001a).

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### A PARADOX OF VICTORY

The unions that eventually came together in COSATU were not the first attempt by black workers to unionise. Following the three previous abortive phases of unionisation by black workers – in the 1920s, in the 1940s, and in the 1950s and 1960s (Webster 1985) – the unionisation of black workers from the early 1970s onwards represents a major breakthrough in that, for the first time, unionists managed to build permanent organisations. All this was achieved despite the hostility of the state and employers in the 1970s and 1980s. The success in setting up permanent organisations set the scene for spectacular membership growth in existing unions, and for the establishment of unions in hitherto non-unionised sectors. Large plants in manufacturing and retail had been the main bases for the new unions and, from there, organisation spread to enterprises in smaller towns and rural

areas. Success in organising the mining sector was another milestone that strengthened the trend of unionisation beyond the industrial areas in the big economic hubs of the country. Another tremendous success was organising workers in state departments and state corporations, including those in the bantustan areas. Until the mid-1980s, the state had successfully resisted unions in the public sector and, when it felt challenged, it unleashed the most vicious forms of violence against such unions, as seen during the brutal response to the railways and harbours strike of 1987 and the bombing of COSATU House during the course of that strike.

However, state repression and the victimisation of workers by employers failed to stem the tide of union mobilisation. Emboldened by their successes, the unions began to forge alliances with community and liberation movements, and started making demands about issues beyond the shop floor. In this regard, COSATU's second national congress in 1987 represents a major shift, as the federation began to make demands about the need to restructure politics and the economy of the country and decided to openly explore links with the outlawed liberation movements. The congress also added its increasingly weighty voice to the call for the release of political prisoners and for the unbanning of liberation movements. In the following two years, the federation took the fight to employers and the state, not only by resisting an amendment to the Labour Relations Act aimed at clamping down on unions, but also by calling for new legislation that granted full worker rights. Towards the end of 1989, COSATU threw its weight behind the defiance campaign spearheaded by the mass democratic movement. The campaign was a deliberate attempt to defy apartheid laws so as to make the apartheid order ungovernable. By this time, COSATU was the only visibly organised force that operated legally, as other formations of the mass democratic movement had been forced by repression to operate clandestinely and most of their leaders were in detention or on the run.

In this context, the year 1990 (and later, 1994) signified victory for all liberation forces in South Africa, including the unions. However, a paradoxical state of affairs arose; while unions, specifically those in COSATU, achieved a historic victory and saw their influence expand to virtually all areas of policy formulation and implementation, their organisational power began to decline visibly. It was through conscious mobilisation and the building of organisational power, with the workplace as a primary site, that unions came to achieve victory and exercise political influence. The incremental expansion of influence from the workplace began with union recognition and the granting of basic rights such as the right to elect shop-floor representatives,

access to the workplace for union officials and the right to bargain on behalf of members. The 1980s saw a rapid increase in the range of issues that unions could bargain over and those that they had to be consulted on. More importantly, formal agreements with employers came to cover a wider set of issues, including maternity and paternity leave, training leave for shop stewards, recognition of a growing number of 'struggle holidays' (for example, March 21 and June 16), and worker involvement in pension and provident funds and medical aid schemes.

The growth of influence and access to formal rights brought about an organisational stability that enabled unions to engage more confidently beyond the shop floor. It was this stability and confidence that earned unions the respect of communities and liberation organisations. Increasingly, members of community and other organisations sought the advice of union leaders, and the latter were called upon to serve and even take on leadership roles in community organisations, but the influence of the unions and their leaders did not end there. From the 1980s onwards, unionists were courted by the banned liberation movements and some were even recruited as members of underground structures, particularly of the ANC and the South African Communist Party (SACP), because they were seen to have access to a significant constituency that the movements could not reach easily.

However, it was the legalisation of the liberation movements, the return of imprisoned and exiled leaders of these movements, and the commencement of political negotiations that saw the influence of unions, in general, and those affiliated to COSATU, in particular, rise to its highest level ever. The unions provided the backbone of the resistance movement as it readied itself for taking over state power. In addition to making its resources and organisational power available to the ANC and the SACP, COSATU contributed its expertise in the politics of mass mobilisation and released some of its key leaders to share their negotiating experience with the political leadership of the liberation movements.

Paradoxically, however, as the political influence of COSATU grew, its organisational power began to decline. This decline in organisational structure was, in the main, a function of the convergence of three broad developments beginning in the early 1990s. Firstly, the phenomenal growth of unions had a centralising effect on the way they operated, with the result that local-level structures began to suffer from neglect arising from the difficulty of servicing a vastly expanded membership. Secondly, the expanded role and influence of COSATU left the federation overstretched. The first casualties of this process were local-level structures,

particularly at the workplace. Greater emphasis tended to be placed on servicing national initiatives and bargaining, thus leaving thousands of members alienated from the activities prioritised by the leadership of their unions. Referring to this phenomenon as a 'retreat from the workplace', the 2006 *Secretariat report* to the 9th COSATU Congress noted:

Outside of wage struggles, there is no coherent strategy to challenge management prerogatives and democratize the workplace. This emerges in weak work on skills and employment equity, amongst others. An unintended consequence of focusing on macro issues may be the abandonment of the shop floor. (COSATU 2006: 29)

Thirdly, the opening up of the South African economy to global markets had an extremely negative effect on union organisation, particularly at the workplace. For unions, this manifested itself as job loss, labour market flexibility and insecurity. More recently, the global economic crisis has accelerated these trends, with unions shedding thousands of jobs as employers resorted to cost-cutting as a survival strategy.

This paradox has played itself out over the last decade and a half, but it must be emphasised that the processes involved do not necessarily entail rupture. Indeed, some of the influence that the federation continues to exercise has the effect of ameliorating the processes of decline referred to here. For example, the clout that COSATU is able to exercise through its involvement in national statutory and other forums makes it difficult for certain kinds of legislative protection to be eroded by employers. In this way, even the weakest sections of the workforce that COSATU has patently failed to organise, such as domestic workers and farm workers, are able to benefit from institutions and rights conferred upon them by legislation such as the Labour Relations Act and the Basic Conditions of Employment Act, institutions such as the Commission for Conciliation, Mediation and Arbitration (CCMA) and wage determinations that are made by the Minister of Labour for those sectors with no collective bargaining arrangements. As a result, the effects of the decline are not necessarily felt immediately by individual unions and their federation.

## MOBILISATION AND VICTORY

The organisational strength of the federation derived largely from the location of workers in the economy and their ability to disrupt it in support of their demands. Internal union education, which helped in leadership development, together

with the establishment of links with intellectuals, proved crucial for the growing power of the unions. This was assisted by the building of various forms of community linkage and support. The absence of meaningful avenues for black upward mobility also ensured that the ground was always fertile for the forging of black solidarity, something that generated public sympathy for workers' struggles and for COSATU, in particular.

Following the inauguration of democracy in 1994, the payback to COSATU for its support of the liberation was almost instantaneous. First, the policy dividends came in the form of favourable legislative and policy outcomes; in this regard, the adoption of the Reconstruction and Development Programme (RDP), first proposed by the unions, and the Labour Relations Act 66 of 1995 (LRA) stand out. A revised version of the RDP became the official election manifesto of the ANC and, as if to officially acknowledge the contribution of the unions, President Nelson Mandela appointed former COSATU General Secretary Jay Naidoo as Minister without Portfolio responsible for the RDP. A similar acknowledgement of labour's, and more specifically COSATU's, role in the transition was the passing of the LRA, a labour-friendly piece of legislation that incorporated nearly all of labour's demands in the period prior to 1994. Several other policy and legislative initiatives were passed or adopted in the post-1994 period, giving further credence to the view that COSATU was reaping the fruits of its labours.

Second, COSATU and the labour movement as a whole benefited from the creation of new labour market and industrial relations institutions through which workers and their unions could process their demands. Examples include the National Economic Development and Labour Council (NEDLAC), the Commission for Conciliation, Mediation and Arbitration (CCMA) and bargaining councils. These and other new institutions represented a phenomenal improvement to what prevailed before, as they had the potential to deliver positive outcomes for black workers.

The third benefit for unions was the liberalisation of the political system and the creation of spaces for democratic contestation. Contrary to the view held by some that COSATU was disarmed or incorporated into statist politics in the post-apartheid period (Neocosmos 1998; Ngwane 2003), the federation and its affiliated unions have retained the right to mobilise and embark on collective action independently of the state. This applies to workplace as well as broader political mobilisation. Not only have unions benefited through the extension of democratic rights such as freedom of association and free speech, they also have not been targeted or subjected to state repression such as prevailed under apartheid or in

other authoritarian systems. Furthermore, COSATU and other unions retain the right to engage in political activity in alliance with any political party they choose.

In the recent period following the election of Jacob Zuma as President of the country, the federation has sought to deepen and institutionalise some of its influence within the ruling political alliance. The deployment of Ebrahim Patel, former general secretary of COSATU's Southern African Clothing and Textile Workers' Union (SACTWU), as Minister of Economic Development in Zuma's Cabinet is a case in point. In the short term, Zuma's response to COSATU's insistence that Patel, rather than National Planning Minister Trevor Manuel or Finance Minister Pravin Gordhan, be in charge of overall economic policy development will be a test of the actual power it enjoys under the new Zuma government. In the meantime, the angry reaction of top ANC leaders to COSATU's attack on Manuel and the call by some leading ANC figures such as Billy Masethla to clip the wings of the federation is an indication that the political sway of the federation is not without limits.

The final benefit is the emergence of career opportunities for leading unionists (i.e. elected leaders and full-time officials). The processes of upward social mobility that we have witnessed since 1994 have been nothing short of momentous. In the broader society, there have been numerous 'rags-to-riches' stories, and the union movement provides countless examples of this. While under apartheid a union career carried serious repercussions such as police harassment, arrest, imprisonment and even death at the hands of state-sponsored death squads, the post-apartheid period offers myriad opportunities for unionists seeking avenues for upward mobility. The most popular arenas in which former unionists have moved are politics, the civil service and business; in the period since 1994, thousands of union activists have taken advantage of the opportunities in these and other fields.

COSATU's gains in the period since the achievement of democracy have no parallel in the contemporary world. Thus, it is not an exaggeration to argue that South Africa's is a phenomenal success story of labour mobilisation at the turn of the twenty-first century, a time when labour movements elsewhere in the world are facing a bleak future. Most of these other movements are finding it virtually impossible to halt the rolling back of gains achieved during the twentieth century. Indeed, many of them are barely succeeding in the struggle to survive the concerted effort by employers and free-market governments to emasculate all forms of worker organisation.

## ACCOUNTING FOR COSATU'S LOSS OF ORGANISATIONAL POWER

In identifying the paradox facing COSATU and other unions earlier in this paper, three broad explanations for the federation's loss of organisational power were identified. In the discussion that follows, this loss of power will be addressed under three broad themes: the spectacular growth of union membership during the last two decades; the expanded political and representational role of COSATU in the context of the new democracy; and the opening up of the South African economy to global markets. It is necessary to preface the discussion with some important qualifications, so as not to create the incorrect impression that the federation and its unions are in a state of collapse.

One qualification that has to be made is that the state of organisation of COSATU unions is generally uneven, and the trends I discuss here affect these unions differentially; thus, the loss of organisational power varies from one union to the next. Similarly, within individual unions, the impact of some of these trends will vary by region, sub-sector and so on. A further qualification is that the loss of power is not necessarily of terminal proportions for the unions. Thus, the discussion that follows is by no means intended to convey a sense of doom about COSATU and its affiliates. Rather, it should be understood as pointing out some trends similar to those identified in classical debates on the trajectory of trade unions once they have gained recognition and acceptance in society (Mills 2001; Lester 1958; Michels 1959). It should be added, however, that unlike some of these classical scholarly contributions, this author does not subscribe to the notion of an immutable iron law that leads to loss of power and oligarchy; the tenor of my discussion points to contradictory processes more akin to those identified during the revitalisation initiatives in several countries across the world (Voss & Sherman 2000; Waddington & Hoffman 2000; Phelan 2007).

### Membership growth

One of the major achievements of the new black unions in the 1980s and early 1990s was the phenomenal growth of their membership (Macun & Frost 1994; Naidoo 1999). This growth was due, in large measure, to the emergence of a democratic environment that provided ample rights and spaces for union mobilisation. However, the irony of rapid membership growth over a relatively short period of time is that it resulted in several unintended and negative consequences. First, the entry of large numbers of members made it virtually impossible to socialise these members into the ways of the unions through regular forms of

union education and training. For many unions, this was exacerbated by the shortage of resources to provide the infrastructure, employ full-time officials and make available the requisite and appropriate education and training materials. In the smaller and cash-strapped COSATU affiliates, education and training collapsed; only the large and well-resourced ones were able to sustain such services. Nevertheless, even the better-resourced unions often found themselves under pressure to move away from forms of education that provided empowerment in handling mundane but crucial organisational and representational problems to those forms that were geared towards familiarising workers and shop stewards with the imperatives of global competitiveness and how unions should adjust to these. As a result, the bigger unions often used their resources to obtain the services of management consultants, technicians and business schools for the provision of training to their shop stewards and senior leaders (Buhlungu 1996; Buhlungu 2000; Buhlungu 2001b).

The second unintended consequence has been a change in the orientation of members, from a solidaristic outlook that aimed to pursue the broad socio-economic interests of all workers to a narrow, inward-looking and instrumental one that prioritises the individual and workplace-specific interests of workers. To a large extent, this shift in orientation is attributable to the weakening of union education and training for new members, but it was also fuelled by the large-scale job losses of the 1990s and early 2000s, which engendered a narrow economism where union members focused on issues that affected their workplace, their industrial sector, their union and ultimately the diminishing layer of full-time workers with indefinite contracts of employment. The change also saw a marked decline in collective action undertaken by union members in solidarity with workers in other workplaces, sectors and unions within the federation. Even the organising policy approaches of the federation changed as the most vulnerable and difficult-to-organise sectors, which were previously organised – the unemployed workers' project, domestic workers, and farm and plantation workers – were abandoned or disbanded. On a related note, COSATU's failure to develop strong worker solidarity and to play a leading role in the broader union movement in South Africa is part of this overall trend.

A final development has been the growing centralisation of core union activities such as collective bargaining and decision-making in other areas of union work. This is partly a function of the membership growth discussed above, which often makes centralisation a necessity rather a choice. The larger the membership, the more difficult it is to involve

everyone in decision-making. However, centralisation is defended on other grounds too; namely, that centralisation allows for speedy response by leadership; that in a globalising environment, leadership should not be hamstrung by lengthy consultative or participatory processes; and that rank-and-file members generally do not possess the skills to enable them to decide on and participate in complex deliberations with sophisticated managers and state bureaucrats.

Centralisation has two consequences that are of relevance to this discussion. One is that it engenders reliance on a few leaders who become increasingly alienated from the rank and file, a process that makes these leaders extremely powerful by virtue of their access to information, resources and networks within and outside the unions. The other consequence is that centralisation results in the decline of what in COSATU's lexicon is known as 'worker control'. This means that opportunities for participation by workers and elected worker leaders diminish at the same time as the power of full-time union officials increases.

The trends discussed above have been visible within COSATU since the late 1980s. Although there are other processes that accentuate these weaknesses, spectacular growth in union membership was the main objective factor that triggered the trend in the first instance.

### **COSATU's expanded political and representational role**

COSATU membership growth alone is not adequate in explaining some of the weaknesses discussed in this paper. It needs to be added that the expanded political and representational role of the federation has produced, perhaps inadvertently, some counter-productive forces that have contributed to the decline of organisational power. One of these is a form of democratic rupture whereby key union leaders become alienated from members, such that in the long term their outlook changes as they begin to think and act like the power elite the movement is seeking to displace – businesspeople, politicians, bureaucrats and other layers of the middle classes. When this occurs, we witness what C Wright Mills (2001: 7) noted in his discussion of American union leaders in the 1940s: 'The labor leader is a powerful man: he accumulates power and he exerts it over the union member and over property.'

The democratic transition in South Africa has created conditions that are conducive to the emergence of union leaders who believe that in undertaking the political and representational role of their unions and federations they have to be seen to be reasonable by their interlocutors in

business and the state. After all, they spend longer hours in meetings with employers and state bureaucrats than they do with blue-collar members of their unions. For COSATU leaders and even certain echelons of shop stewards, interactions with employers and state officials occur in institutions such as bargaining councils, NEDLAC, the governing boards of bodies such as the CCMA, task teams and other ad hoc bodies, *bosberade* (retreats) and numerous others that have become common in post-apartheid South Africa. To this list I should add a whole array of international trade union bodies in which the federation and its affiliates have representation. During social occasions at such events, the conversation is seldom, if at all, about building a workers' paradise and often about the latest trends in consumption – cars, houses, food and expensive drinks, playing golf, and free tickets to watch sports matches from corporate suites at sports stadiums.

This all means that leadership positions have become inscribed with power and privilege; hence, the often acrimonious leadership contests for power and resources that have occurred within the unions over the last decade (Buhlungu & Bezuidenhout 2008). Furthermore, being a representative of the federation or its affiliates in political and other forums means more than just conveying their views and mandates. Very importantly, it often also means access to new networks, an opportunity for one to 'profile' oneself, and access to perks such as free flights, hired cars, paid time off work, *per diems* and so on.

The political and representational role of the federation and its unions has had the effect of widening the horizons of its members and, particularly, its leaders, from shop stewards up, in terms of what opportunities are available for upward social mobility. Unlike in the past when the best a shop steward could aspire to become was a supervisor on the shop floor, today the range of options is almost endless, including becoming a local government councillor, a member of the provincial or even the national parliament, and numerous other career possibilities. Since 1994, the presence of these greener pastures has continued to present COSATU and its unions with a serious challenge as generations of leaders and activists have continued to seek career opportunities elsewhere. Often, these activists and leaders develop new contacts and networks in the course of performing their representational roles and, in this way, their skills and capabilities get noticed by others. It is no wonder, then, that when they exit the unions, union leaders and activists find employment with organisations that they have had the most sustained contact and interactions with. These include government departments, such as Labour and Trade and

Industry, labour market and industrial relations institutions, such as bargaining councils and the CCMA, and other public institutions that include NEDLAC, state corporations and private business organisations.

The dramatic increase in upward mobility opportunities for union leaders, officials and members has had a generally de-radicalising effect on the unions. Unlike in the past, when government and business organisations were regarded by radical unionists as part of a putative enemy, today these and other organisations are regarded as legitimate and coveted avenues for upward mobility. In this regard, the radical rhetoric of unions, particularly those in COSATU, obscures the fact that the practice among individual union members and leaders concerning upward mobility is one of *realpolitik*, where any organisation and institution is good enough if it can provide employment opportunities. In other words, if one examines the practice of these officials and leaders, radical notions of smashing the state and capitalism ring very hollow.

### The dramatic increase in upward mobility opportunities for union leaders, officials and members has had a generally de-radicalising effect on the unions.

At the level of union members on the shop floor, a related phenomenon is demobilisation, which is a result of a deep sense of cynicism. This is symptomatic of the gradual but inexorable erosion of forms of solidarity built during the era of resistance, when there was greater alignment between the rhetoric and practice of the unions and their leadership. Although research in recent years shows that COSATU members are satisfied with the general direction and policy positions taken by their leaders (Buhlungu 2006), there are strong indications that membership participation in union activities such as general meetings and rallies has declined. This suggests that union membership is now increasingly motivated by a sort of instrumental pragmatism, where support for the union is driven more by the material benefits that can be extracted from the union than by a genuine support for the policy positions that the union espouses.

### South Africa's entry into the global economy

The third explanation for the loss of organisational power by the federation stems from the growing insertion of South Africa into the global economy. COSATU continues to project a confident political image, and its leaders are identified with

the core of political power in the new dispensation. However, not so apparent to the casual observer are the deleterious effects of work restructuring and job insecurity associated with trends in the global economy on the federation's organisational well-being. As Table 2.3.1 illustrates, most COSATU affiliates have either faced stagnation of their membership figures or have seen a consistent decline in membership. Where growth was recorded, it was largely due to the incorporation of hitherto unorganised sub-sectors or sections of the workforce, or the expansion of the organising scope of the union. As the table shows, the overall figures also paint a picture of stagnation in the federation's

membership figures, with the highest total of 1.869 million members having been achieved in 2000.

The membership figure of 2 million presented at the 2009 COSATU congress is misleading because it creates the impression that membership has increased since 2006. The first problem with the figure is that it is a reflection of the situation at the end of 2008. Furthermore, the figure does not take account of the massive job losses suffered by the federation since the end of 2008. For example, two of the largest unions, the National Union of Mineworkers (NUM) and the National Union of Metalworkers of South Africa (NUMSA) lost a combined 108 000 members in 2009, with

Table 2.3.1: COSATU membership, 1991–2006 (rounded to thousands)

Union	1991	1994	1997	2000	2003	2006
<i>CEPPWAWU</i>	88 000	78 000	94 000	74 000	65 000	62 000
<i>CWU</i>	21 000	23 000	40 000	35 000	32 000	25 000
<i>DENOSA</i>	---	---	73 000	70 000	71 000	64 000
<i>FAWU</i>	129 000	121 000	140 000	119 000	119 000	115 000
<i>MUSA</i>	---	---	---	---	---	1 000
<i>NEHAWU</i>	18 000	64 000	163 000	235 000	235 000	204 000
<i>NUM</i>	270 000	311 000	311 000	290 000	279 000	262 000
<i>NUMSA</i>	273 000	170 000	220 000	200 000	173 000	217 000
<i>PAWE</i>	---	---	---	---	---	400
<i>PAWUSA</i>	---	---	---	---	---	17 000
<i>POPCRU</i>	---	---	45 000	71 000	67 000	96 000
<i>SAAPAWU</i>	---	---	29 000	22 000	22 000	---
<i>SACCAWU</i>	97 000	102 000	102 000	102 000	102 000	108 000
<i>SACTWU</i>	186 000	150 000	150 000	120 000	105 000	110 000
<i>SADNU</i>	---	---	---	8 000	8 000	9 000
<i>SADTU</i>	---	59 000	146 000	219 000	215 000	224 000
<i>SAFPU</i>	---	---	---	---	---	1 000
<i>SAMA</i>	---	---	---	---	---	5 000
<i>SAMWU</i>	60 000	100 000	117 000	120 000	120 000	118 000
<i>SASAWU</i>	---	---	---	18 000	18 000	9 000
<i>SASBO</i>	---	---	70 000	63 000	63 000	61 000
<i>SATAWU</i>	70 000	74 000	91 000	103 000	74 000	133 000
<b>TOTAL</b>	<b>1 212 000</b>	<b>1 252 000</b>	<b>1 791 000</b>	<b>1 869 000</b>	<b>1 768 000</b>	<b>1 841 400</b>

Source: COSATU (2006); [http://www.naledi.org.za/cosatU/state\\_of\\_cosatu\\_affiliates.pdf](http://www.naledi.org.za/cosatU/state_of_cosatu_affiliates.pdf)

the former losing 48 000 while the latter shed 60 000 members (Enlsin-Payne 2009). Other affiliates also lost significant numbers.

An important but not fully acknowledged feature of globalisation is the rapid, worldwide diffusion of managerial ideologies and strategies, including those that have negative effects on union mobilisation. Of particular relevance in this respect is the role played by management consultants in the diffusion of these ideologies and strategies. By contrast, unions do not have access to advisors or consultants with the same global reach or influence; thus, union strategies are not shared in the same way as those of management. Indeed, unions across the world continue to show ambivalence regarding outside inputs and advice. In cases where unions seem to have the upper hand and can exert influence independently, based on their organisational resources, they tend to shun advice from outside sources such as consultants. Then, in cases where they are under pressure from management, state and other sources, they tend to welcome advice and assistance uncritically from all sources.

The fact that in a globalising environment capital has greater mobility across different regions of the world, from strong union and high wage zones to weak union and low wage zones, has contributed to what Beverley Silver (2003) calls a 'spatial fix', which makes capital more powerful *vis-à-vis* labour. The real challenge for labour has been its inability to redefine the role of its organisational structures to deal with concrete issues in a context where industrial unionism has been shown to be patently inadequate. In South Africa, the crisis of the industrial union model is best illustrated by its inability to cope with labour market changes, such as the segmentation of the labour market into a core workforce, comprised of workers in permanent positions with benefits and relative security of tenure, and a peripheral workforce, made up of workers in precarious forms of employment.

## **COSATU'S RELATIONSHIP WITH OTHER INSTITUTIONS AND CONSTITUENCIES**

The paradox discussed above also plays out in COSATU's relations with other institutions and organisations in society. In one respect, COSATU's relations with these organisations and institutions reflect the power and influence the federation continues to exercise. The federation commands enormous respect, and even fear, among leading figures in these bodies. This derives from the historical symbolism associated with the federation and its heroic struggles against unyielding employers and the stubborn apartheid regime, on the one

hand, and the powerful influence the federation has commanded under the democratic dispensation, on the other. However, the relations also reflect the diminishing organisational power of COSATU to impact upon important developments in society. The federation's relations with some of the leading institutions and organisations in post-apartheid society are considered below.

### **State institutions**

To many, COSATU is closely associated with the ruling ANC and, by extension, with many of the institutions of the post-apartheid state. The federation's broad participation in activities and programmes associated with state institutions is often seen as lending them legitimacy. Thus, the views and inputs of labour, specifically COSATU, are solicited actively whenever important policy decisions are to be taken. Also significant here is the fact that COSATU has formal representation in numerous statutory bodies and other ad hoc committees that have consultative or advisory powers in respect of state institutions, such as NEDLAC, presidential jobs summits and various tripartite commissions established by law.

However, not everyone in state institutions is sympathetic to labour. To begin with, many state officials are uninformed or ignorant about labour issues, which means that their sympathy or support for labour and labour-friendly programmes and policies is never guaranteed. Indeed, even the support of those who have a fair-to-good appreciation of the policies of labour cannot be taken for granted. Over the last 15 years, hundreds of COSATU officials and leaders have moved into state institutions of one sort or another, including Parliament and the Cabinet. The reality is that many of these ex-COSATU activists now ensconced in powerful positions in state institutions are generally lukewarm or even hostile towards COSATU. There have been numerous instances where COSATU members have embarked on protest action against ex-COSATU activists in high-profile positions, such as former Gauteng Premier Mbhazima Shilowa, former Trade and Industry Minister Alec Erwin, and Johannesburg Metro Mayor Amos Masondo. More recently, COSATU and its affiliates launched scathing attacks on key government officials such as Minister in the Presidency responsible for the National Planning Commission, Trevor Manuel and the previous Reserve Bank Governor, Tito Mboweni.

In short, the reaction of state officials to COSATU can be categorised into three types: admiration, fear and contempt. The irony is that the attitude of former COSATU members, full-time officials and other leaders now in the state is characterised largely by contempt and disparaging remarks

about the federation's current crop of leaders and the policies and strategies they adopt. This was particularly the case during the tenure of Thabo Mbeki as the country's president, when relations between the federation and several state institutions reached their lowest point since 1994. A notable exception has been the Department of Labour, which has remained a bastion of union support in a government that has become increasingly lukewarm and even hostile towards unions. However, many within the department are becoming increasingly frustrated about the unions' lack of capacity to make use of the current protective legislative and policy dispensation.

### Employers

The labour movement's history of militant struggle against managerial despotism and racism on the shop floor, and its central involvement in the broader political struggle to transform society have earned it the respect of management across all sectors of the economy. With regard to COSATU, the fact that it is in alliance with the ruling party further underlines the influence that the federation exercised during the democratic transition and its centrality to the unfolding processes of change. The significance of this for COSATU's relations with employers is twofold. Firstly, it has made employers come to terms with the reality of a powerful union movement that will remain a permanent feature of the landscape of employer-employee relations in South Africa. Secondly, most employers have come to accept that it is unrealistic to try to eliminate or destroy unions, and that the best approach is to learn to live with them. Hence, the dominant approach among employers today is to engage with COSATU in those sectors and workplaces where the federation's affiliates have a presence.

However, none of the above should be construed to mean that relations between employers and COSATU have become cosy. Indeed, as we saw with the security industry and the Johannesburg MetroBus strikes in 2006/07, there are some employers who continue to believe that a hard-line approach is the best way to deal with unions. Even those who accept the reality of strong unions continue to find ways to bypass unions and ignore legislation. A recent study assessing the implementation and impact of employment equity provides a good illustration of this point (Bezuidenhout et al. 2008). A popular strategy among managers is the deployment of consultants and other resources to outmanoeuvre workplace and local union leaders (Von Holdt 2005).

The hundreds of former unionists who have assumed management positions at various levels of seniority are not included among those who have moved into the corporate

world as owners of business. To what extent do these former unionists help smooth relations between employers and the unions? Like their counterparts who have moved into politics and civil service positions, most ex-COSATU activists in management maintain a lukewarm attitude towards the federation and its affiliates. Some are downright hostile and make no effort to hide their contempt for the current leadership of the federation.

### COSATU and politics

The influence that COSATU exercises in society derives in part from its engagement in the politics of the country, particularly its relationship with the ruling ANC through the tripartite alliance, which also includes the SACP. The benefits of the relationship for workers and the union federation have been the subject of many scholarly analyses (see, for example, Buhlungu 2005, 2006; Southall & Webster, forthcoming). An aspect of the relationship that has not received sufficient attention is the way in which political engagement detracts from the task of maintaining the organisational strength of the federation and its affiliates. In the majority of cases, this has meant that human and material resources have been diverted away from building the organisational capacities of unions from the workplace upwards. In this regard, union education and training activities have suffered severely, particularly in a context where new categories of members not steeped in the struggles of the 1980s and 1990s have been joining the unions in large numbers. Many unions also fail to run induction and training programmes for their leadership cadres, including shop stewards, office-bearers and representatives in various bodies such as bargaining councils, pension and provident funds, and other negotiating forums.

Another problem with the federation's form of political engagement is that it has developed into support for a single political current, as represented in the ANC and the SACP. Even within the alliance, COSATU has increasingly aligned itself with the faction associated with party president Jacob Zuma. In practice, this has meant that those associated with other factions within the alliance, as well as unionists who openly align themselves with other parties, have been marginalised and, in some instances, have been purged. The federation has also shown itself to be unwilling to forge alliances with other civil society organisations, preferring to keep all its political eggs in the tripartite alliance basket.

### COSATU and communities

COSATU's track record in the anti-apartheid struggle includes its remarkable ability to combine shop-floor and

community struggles, which many observers referred to as social movement unionism. However, as some scholars have argued, social movement unionism is a phenomenon that applied to the specific conditions that prevailed under the apartheid social order (Von Holdt 2002). In recent years, COSATU unions have not been making any effort to earn and win community support. During strikes, such as the 2006 Johannesburg MetroBus strike, the 2007 public service strike and the more recent wave of strikes in 2009, no serious efforts were made by the relevant unions to seek community support. Indeed, in the case of the public service strike, non-COSATU unions were more proactive in the way that they dealt with the public. For example, the National Professional Teachers' Organisation of South Africa (NAPTOSA) sent letters to parents explaining why they were on strike and asking for their support during this struggle. No similar gestures were forthcoming from COSATU's South African Democratic Teachers' Union (SADTU). The distance between unions and communities has meant that it is no longer possible for unions to command the respect of community members, or provide leadership in communities, as was the case during the height of the anti-apartheid struggle.

### **COSATU on the world stage**

Like most federations around the world, COSATU has become inward-looking, focusing its attention at home and, more specifically, on its members, all of whom are in full-time permanent employment. The result is that its participation in regional and international trade union bodies has become rather weak. For example, its participation in regional bodies such as the Southern African Trade Union Co-ordinating Council (SATUCC), the Organisation of African Trade Union Unity (OATUU) and the Southern Initiative on Globalisation and Trade Union Rights (SIGTUR) adds virtually no organisational muscle whatsoever. Acts of solidarity that the federation has embarked upon in recent years have been limited and dependent on the idiosyncrasies of the national leadership. In short, the role that the federation plays on the international stage has disappointed many activists who looked up to it as the embodiment of social movement unionism and international solidarity in an era when most other union movements were in decline. Meanwhile, leaders of the federation have dismissed the advice of those, including

**The future of the federation is a matter of fierce contestation between those forces that prioritise political influence and those that give primacy to building organisational power.**

many from the African continent, who caution against unions having too cosy a relationship with the ruling party. They argue instead that South Africa is different, and that the tripartite alliance can yield only positive results for the unions.

### **CONCLUSION: A CONTESTED FUTURE**

This paper has tried to demonstrate that COSATU remains extremely powerful and influential in South African society, particularly because of its close relationship with the ruling party, the ANC. This power and influence would be the envy of many a trade union federation in other developing countries today. However, several factors negate this influence and, instead, bear testimony to the organisational weaknesses that are increasingly becoming apparent in the federation. The existence of these contradictory processes, influence and loss of organisational power, make it nearly impossible to predict the future of the federation. What we can say with a degree of certainty, however, is that the future of the federation is a matter of fierce contestation between those forces that prioritise political influence and those that give primacy to building organisational power. On the one hand, the democratic environment serves to enhance the extension of the political influence of COSATU; on the other hand, the advent of democracy, the growth in size of unions and the global economic environment, including the current economic downturn, serve to exacerbate the loss of organisational focus and power. Union movements in the rest of the world have learnt the hard way that political influence is impossible to sustain in the absence of organisational power. Sadly, COSATU does not seem too keen to learn from the experiences of union movements in other parts of the world.

# Chapter three

## Education and skills

“Being poor is a serious disadvantage educationally, but going to a school where poor students are concentrated is even more disadvantageous.”

<b>Scorecard</b>	Education and skills development	65
<b>Research</b>	Socio-economic status and educational achievement: Does education provide a stepping stone out of poverty in South Africa? <i>Stephen Taylor and Derek Yu</i>	66
<b>Briefing</b>	The National Benchmark Tests Project: Addressing student educational needs in the tertiary education system <i>Nan Yeld</i>	76
<b>Review</b>	From JIPSA to HRD-SA: Continuity and disjuncture in the development of a national human resource strategy <i>Renee Grawitzky</i>	84

# overview

In their opening article to the Skills and Education chapter, **Stephen Taylor and Derek Yu** look at the impact of socio-economic status on educational outputs, and ask whether the South African education system provides learners from marginalised backgrounds with the opportunity to rise above their circumstances. In their analysis of the 2006 Progress in International Reading Literacy Study data, they discern the role that socio-economic status generally plays in the equation, but they also find that its impact becomes more muted in traditionally black schools. In these generally under-resourced and under-performing institutions, socio-economic background seems to play much less of a roll in educational results. They attribute this largely to the role of peers and make reference to studies that have pointed to the fact that socio-economic mix of peers may be more instrumental than funding in positive educational outcomes. If this argument is transposed to the South African context, it suggests that one of the key problems may be the concentration of poor learners in poorly performing institutions.

In the face of a schooling system that does not prepare all learners adequately for the demands of tertiary education, there is a need for higher education institutions to organise themselves better for the challenges that this may pose. **Nan Yeld** reports on the results of the 2009 pilot study of the National Benchmark Tests Project (NBTP), which was designed to allow higher education institutions to get a better grasp of the demands that they face in terms of student proficiency in academic, quantitative and mathematical literacy. In terms of all three measurement areas, less than half of participating students showed an

acceptable level of proficiency. While disconcerting, these results present a first partial picture of the challenges that higher education institutions face; according to Yeld, once the NBTP becomes more widely adopted, not only will it allow these institutions to be better prepared in providing support for new entrants, it also may assist in a better alignment between school curricula and the demands of the higher education sector.

In the last article of this chapter, **Renee Grawitzky** looks at the government's revised Human Resource Development Strategy (HRD-SA). The document is currently still in draft form, after it was initially accepted by the Mbeki administration in 2008 and then sent back by the Zuma administration to be revised in line with the new structures and ministries of the post-election administration. Grawitzky tracks the process from the development of the first strategy that was launched in 2001, through the call for its revision, the launch of JIPSA in the following year, and the submission of the new strategy in 2008. She notes that the new strategy has tried to fill gaps that existed in terms of monitoring and evaluation, as well as the integration of relevant data into planning around education and training policy. Much of the new document has been informed by JIPSA best practice, particularly with regard to its consultative nature, which is evident in the proposed composition of the HRD Council. Grawitzky, however, notes the absence in the current version of the document of a direct link to the Cabinet, which JIPSA had through the office of the deputy president. This, she believes may impact on the Council's ability to act in a responsive manner.

## Education and skills development scorecard

Transformation goal		A human resources development system that produces an employable labour force and provides the necessary scarce skills to sustain economic growth				
Desired outcome	Indicator	Status 1990–1994	Status 2007	Status 2008	Status 2009	Positive development
	Matric passes as percentage of cohort*	33.20% 271 098	36.01% 351 503	37.35% 368 217	33.57% 334 239	↓
Providing scarce skills to grow the economy	Matric maths HG passes as percentage of cohort	2.73% 22 300	2.58% 25 217	2.59% 25 509	n/a	
	Matric maths passes (new subject) as percentage of cohort	n/a	n/a	n/a	13.71% 136 503	
	University endorsements	9.64% 78 713	8.80% 85 930	8.67% 85 454	10.79% 107 462	↑
	Degrees conferred by universities**	46 688	74 689 (2005)	77 980 (2006)	77 511 (2007)	↓
Employable labour force	Average years of schooling successfully completed in the 20 to 24-year-old cohort	9.66	10.23	10.27	10.36	↑

Sources: Department of Education, various databases; and Statistics South Africa, *October Household Surveys & Labour Force Surveys*, various years

Note: \* No direct comparisons in standards are possible with regard to school education between 2008 and earlier years. Note the large jump in mathematics passes; even if a stricter pass criterion of 40% rather than 30% is applied to the new mathematics results, maths passes still amount to 89 788, compared to 25 509 HG maths passes in 2007. On the other hand, matric passes showed a marked decline, while university endorsements (in 2008 endorsement for Bachelor's studies) were strongly up. These changes are driven largely by altered standards.

\*\* This includes degrees conferred by universities of technology and distance education institutions. For comparability purposes, degrees conferred by former technikons are included in the older data. Due to delays in data availability, earlier data than the year shown are used in cases where indicated. The 2007 figure is an unaudited estimate.

The completely different matriculation examination introduced in 2008 makes comparisons of the quality of the output across time problematic. It involved structural changes in the curriculum, subject content, assessment and even subjects offered. A brief analysis of three output measures between 2007 and 2008 is revealing. The number of successful matriculants declined by about 34 000 or 9.3%, indicating a greater overall difficulty level (although some of this decline may simply reflect that teachers have not yet come to grips with the new curricula). On the other hand, the numbers qualifying for entrance to university at the Bachelor's level increase sharply by some 23 000 or 25.8%, compared to the old university endorsements or matriculation exemption. This allows somewhat weaker candidates to enter university. Given already high university failure rates, these institutions are reluctant to admit even more weaker candidates, and some have strengthened their own entry tests as a tool to ensure that they

admit only candidates with the background and potential to be successful at university level.

Until 2007, matriculants had the option to take mathematics at the Higher Grade or the Standard Grade level, or not to take mathematics at all. Since 2008, all matriculants have to choose between two new subjects, mathematics Literacy (a quite elementary subject) or mathematics, which lies somewhere between the old mathematics Higher Grade and mathematics Standard Grade. There were some 25 500 successful candidates in mathematics Higher Grade in 2007, while more than five times as many, some 136 500, successfully completed the new subject, mathematics. It is clear that the new subject, mathematics, is far easier to pass than the old HG mathematics. Universities contend that many students are not being extended enough in mathematics at school and come to university under-prepared for the rigorous courses required at this level.

# research

## **SOCIO-ECONOMIC STATUS AND EDUCATIONAL ACHIEVEMENT: DOES EDUCATION PROVIDE A STEPPING STONE OUT OF POVERTY IN SOUTH AFRICA?**

Stephen Taylor and Derek Yu

### **INTRODUCTION**

Minister of Basic Education Angie Motshekga recently referred to education in South Africa as a 'key weapon to fight poverty and unemployment'; significantly, she went on to add that 'quality education is the key' (Motshekga 2009). This reflects a growing recognition of the importance of quality in an education system in which almost universal access has been achieved, but where serious inequality in outcomes still prevails. Unfortunately, education in South Africa has become surrounded by a discourse of crisis. For example, Brahm Fleisch (2008) titled his recent book *Primary education in crisis*, and a contribution to an earlier edition of the Transformation Audit was headed 'Education: The crisis in schooling' (Van der Berg 2004).

It is imperative that the poor performance of South Africa's schools be understood, and that the associated issues of equity are examined. Ultimately, social justice, transformation and the country's economic development are dependent on how the education system functions. The extent to which children from disadvantaged backgrounds have a real opportunity to achieve educational outcomes that will enable them to be successful in the labour market indicates whether the school system can be expected to transform existing patterns of inequality or merely reproduce them. This article begins with some discussion of the relationship between education and economic development, before considering the performance of South African children in the 2006 Progress in International Reading Literacy Study (PIRLS). In particular, the association of socio-economic status (SES) with reading achievement and the implications of this for social mobility are analysed.

### **ECONOMIC DEVELOPMENT AND EDUCATION**

This article departs from an understanding that economic development involves a sustained rise in living standards,

which produces an improvement in the quality of life for the whole population. Meier (1995) describes economic development as a process of long-term *per capita* growth that leads to qualitative improvements throughout the social system. This captures the notion that although economic growth may well be a fundamental driving force behind development, it is impossible to achieve economic development without qualitative improvements in living standards that are enjoyed by the whole population, perhaps especially by those at the lower end of the socio-economic distribution (to add a Rawlsian principle of justice). Therefore, in highly unequal societies such as South Africa, transforming the distribution of income and wealth is a core aspect of the development challenge. Much hope is often vested in education as an institution of transformation. Usually, the mechanics of this are conceived of in terms of the human capital model, according to which education improves an individual's productivity, which, in turn, is rewarded in the labour market by higher earnings. In this way, it is hoped that education can provide children from poor socio-economic backgrounds with an opportunity to be successful in the labour market, thus overcoming their disadvantaged background.

The extent to which children from disadvantaged backgrounds have a real opportunity to achieve educational outcomes that will enable them to be successful in the labour market indicates whether the school system can be expected to transform existing patterns of inequality or merely reproduce them.

However, the home background or SES of students is a major factor in determining educational outcomes. This relationship holds throughout the world, although the strength of the association varies across societies. So, using education as a pathway out of poverty is a bit like trying to climb up an escalator that is going down. The interesting empirical question to ask of any particular society is, therefore: To what extent does socio-economic status determine educational outcomes? Or, put differently: How much of an opportunity do poor children have to achieve educational outcomes that are sufficient for successful labour market participation? These questions are addressed in this article with respect to South Africa and in international

comparison. Moreover, an attempt is made to disaggregate the impact of students' SES on educational achievement into home effects (direct) and school effects (indirect).

There are numerous channels through which SES can be expected to influence educational achievement. Its influence is experienced directly through the quality of educational support that is available at home. This starts before school with early childhood development and continues throughout school. SES also affects educational achievement indirectly through the schools that students attend. This can be separated further into two channels – the type or quality of school and the effect of peers in a school. This latter effect was perhaps the most important aspect of the landmark American study known as the Coleman Report of 1966, which found that the socio-economic mix of peers was a more important school resource than funding. This paper represents an attempt to provide empirical estimates of some of these effects in South Africa and to consider the implications for transformation and social mobility.

## READING PERFORMANCE AMONGST SOUTH AFRICAN CHILDREN

In 2006, the International Association for the Evaluation of Educational Achievement (IEA) conducted the second round of the PIRLS. The purpose of the PIRLS study was to provide information regarding reading achievement in primary schools, which would be relevant to policy and instruction in the participating countries. Testing was done in 40 countries, including Belgium (with two education systems) and Canada (with five provinces that were analysed separately). Thus, there were 45 participants in total. Testing was done on students in the fourth grade, with the exceptions of Luxembourg, New Zealand and South Africa, where testing was done on fifth grade students, and Slovenia, where testing was done on students in both the third and fourth grades. The reason given by the IEA for testing fifth grade students in South Africa was the challenging context of having multiple languages of instruction.<sup>1</sup> It is important to keep in mind that South African children had one more year of schooling than most of the other participants.

The reading scores in PIRLS were generated using average scale scores. This involved setting a scale average score of 500 across the countries and a standard deviation of 100.<sup>2</sup> For the sake of comparison and analysis, educational experts selected four points on the reading score scale corresponding to hypothesised international achievement benchmarks:

- Low international benchmark: 400

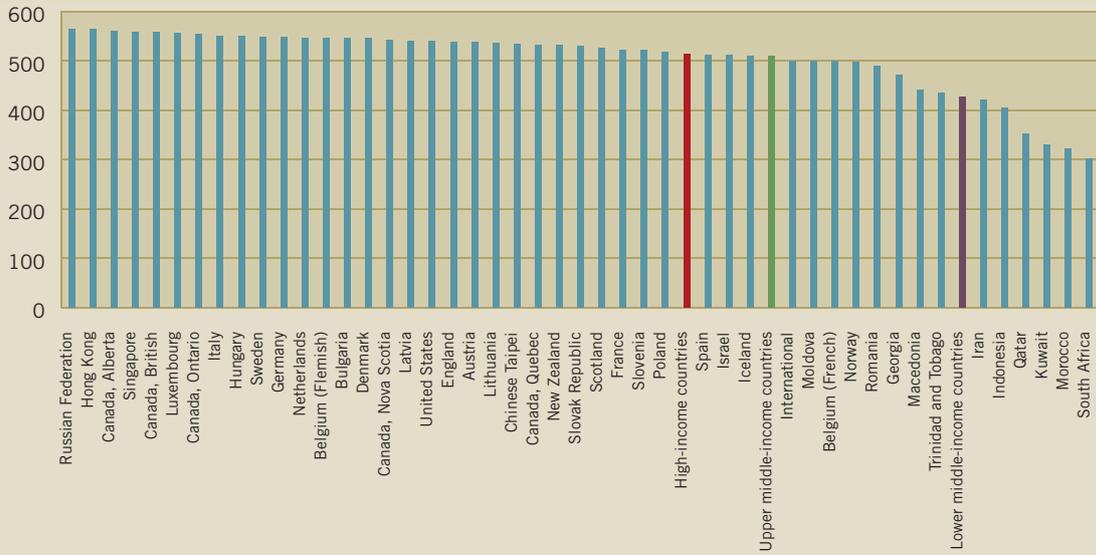
- Intermediate international benchmark: 475
- High international benchmark: 550
- Advanced international benchmark: 625

The mean reading scores for all the participants in PIRLS 2006 are presented in Figure 3.1.1.<sup>3</sup> For interest, the averages for the high-income, upper middle-income and lower middle-income groups of countries are also reported, using the World Bank's classifications. Russia was the top-performing participant in PIRLS 2006, with a mean score of 565, while South Africa was the worst-performing participant, with a national average of 302. This is consistent with the country's performance in the 2003 Trends in International Maths and Science Study (TIMSS), in which South Africa was the lowest performing participant in both maths and science. It is also disconcerting that South Africa had the largest proportion of students (77.8 per cent) scoring below the low international benchmark score of 400. This means that nearly 80 per cent of South African children can be considered 'very low reading achievers' who are 'at serious risk of not learning how to read' (Trong 2009: 123).

Figure 3.1.2 offers a different picture of South Africa's performance in PIRLS in international comparison. It shows the range of reading scores from the 5th percentile to the 95th percentile, and indicates the median score, for each country.<sup>4</sup> The countries are arranged in descending order, according to the size of the range. The figure demonstrates that South Africa has not only the lowest overall level of performance but also the greatest variation in reading achievement. This is indicative of the high level of inequality in educational outcomes that persists in South Africa.

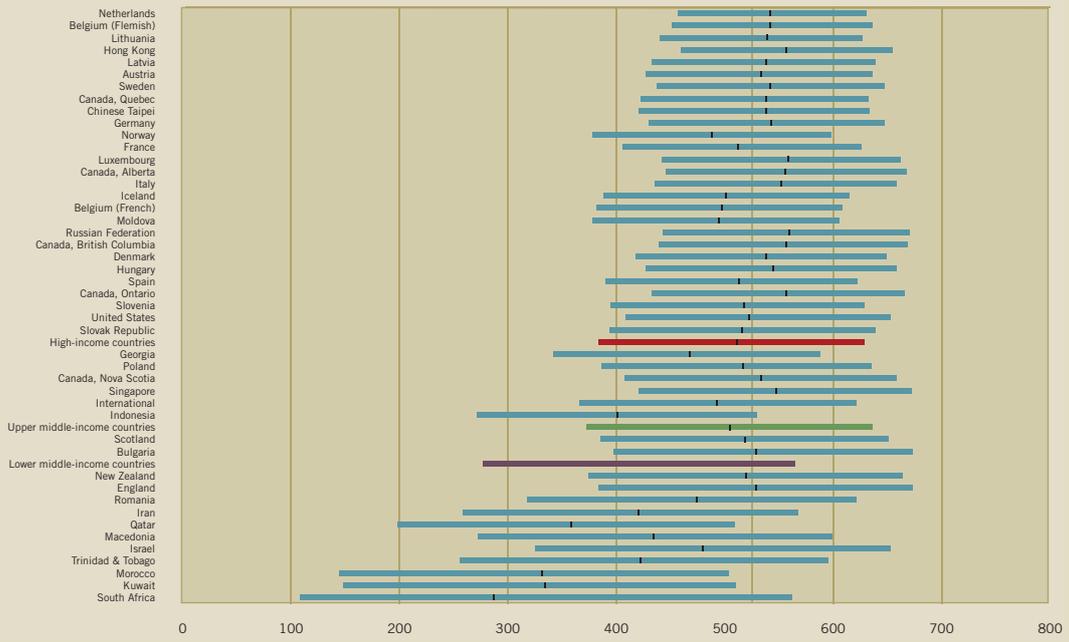
Several authors have characterised the unequal distribution of educational achievement in South Africa as 'bimodal' (see, for example, Fleisch 2008; Van der Berg 2008). This refers to the phenomenon where two separate distributions corresponding to two differently functioning parts of the school system are concealed within the overall distribution of achievement in South Africa. According to this distinction, approximately 80–85 per cent of South African students are located within a 'sub-system' that can be described as historically disadvantaged and currently poorly functioning. The second 'sub-system' consists mainly of historically white and Indian schools, and demonstrates much greater functionality. Since the racially separate education departments were done away with, a fair amount of migration out of historically black schools into historically white, coloured and Indian schools has taken place amongst the growing black middle class. However, negligible movement in the opposite direction has occurred, with the

Figure 3.1.1: Mean reading scores in PIRLS, 2006



Source: Progress in International Reading Literacy Study (PIRLS)

Figure 3.1.2: 5th percentile, 50th percentile (median) and 95th percentile of performance



Source: Progress in International Reading Literacy Study (PIRLS)

result that historically black schools have to 'contend with both the disadvantages of apartheid as well as the migration of better performing learners' (Reddy 2006: xiii). This only perpetuates the bimodality of South Africa's educational achievement.

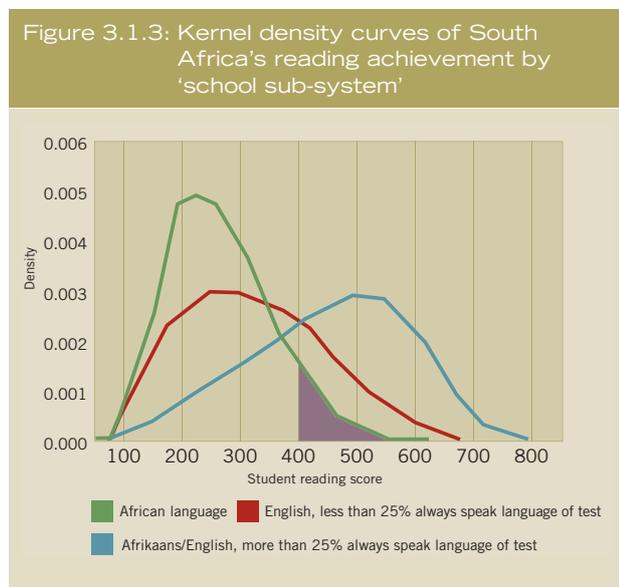
As Van der Berg (2008: 145) maintains, 'separate data-generating processes' operate in each of the two 'sub-systems', necessitating sensitivity to this underlying structural aspect when analysing educational achievement data for South Africa. In the PIRLS data, there is no information on race or ex-racial education department with which to divide the sample into the two 'sub-systems'. However, schools had the option of taking the reading test in any of the 11 official languages. Therefore, one can be almost certain that if a school took the test in an African language, it is a historically black school, or at least would have been had it existed during the former regime. It is likely that some historically black schools would have taken the test in English. This makes it harder to identify historically advantaged schools. In order to deal with this, schools that took the test in English but where less than 25 per cent of the students reportedly always spoke English at home were treated as a separate 'undecided' sub-sample.

Using kernel density curves, Figure 3.1.3 shows the distribution of reading achievement in South Africa by each 'school sub-system'. A kernel density curve is essentially a type of smoothed histogram. They are useful for showing where the bulk of a distribution is concentrated. To illustrate

the intuition of the curves, the shaded area in Figure 3.1.3 shows the proportion of students in African language schools that scored above the low international benchmark of 400. The figure demonstrates that two very different distributions do indeed underlie the South African distribution of reading achievement. The distribution for African language schools lies far to the left, indicating a low overall level of achievement, and is very concentrated. The Afrikaans/English distribution lies considerably to the right and contains more variation, possibly indicative of the historically disadvantaged schools that are 'mistakenly' included despite the adjustment for the proportion always speaking English at home.

To further illustrate the performance of South African children in PIRLS, consider that only 6.7 per cent of South African children scored above the international mean of 500 in PIRLS 2006. Only 2.9 per cent of South African children scored above the Russian average score of 565. Virtually all of these students came from Afrikaans/English language schools. Only 28 students out of 10 186 in African language schools scored above the international average of 500. These students were not clustered in a few outlying schools; the 28 students came from 22 schools, indicating that these are *student* outliers in a weakly performing school system. Only 2 students out of 10 186 in African language schools scored above the Russian average of 565.

It is well known that race has considerable overlap with SES in South Africa. Therefore, the disparity in educational achievement between these two historically different parts of the system requires an analysis of the impact of SES on educational achievement. The next section uses the socio-economic gradient technique for this purpose.



Source: Progress in International Reading Literacy Study (PIRLS)

## SOCIO-ECONOMIC GRADIENTS

A socio-economic gradient is a graphical representation of the linear relationship between SES and a particular outcome of interest, such as health or education. Such a gradient is obtained by plotting the estimates derived from a regression equation, which quantifies the association between variables, in this case between SES and reading scores.

The PIRLS has no household income or expenditure data to use as a measure of SES, but does contain information on whether students had access at their home to ten different items or 'possessions'. The first six items were included in the questionnaires across all countries, and the last four items were country-specific. In the case of South Africa, the ten items were as follows: computer, study desk/table, own books (excluding textbooks), newspaper, own room, own cellular

phone, calculator, dictionary, electricity and tap water. An asset-based index was derived from these variables and used as a proxy for SES in this analysis.<sup>5</sup>

In the case of South Africa, when this index for SES was entered as an explanatory variable into an Ordinary Least Squares regression predicting reading achievement, it was found that a one percentile increase in SES was associated with an increase in a student's predicted reading score of 2.08 points. Similarly, asset-based indices for SES were derived for Morocco, Russia and the USA and were used to explain reading achievement in those countries. Each of the countries had a different comparative value. Morocco was chosen because it is the only other African country in the sample and is the nearest to South Africa in terms of the level of reading performance. Russia was chosen because it is the top performing country in the PIRLS. The USA was chosen because it is known to be a quite unequal society and in that respect may be worth comparing with South Africa. The respective estimates of the association between SES and reading scores were plotted graphically, producing the socio-economic gradients displayed in Figure 3.1.4.<sup>6</sup>

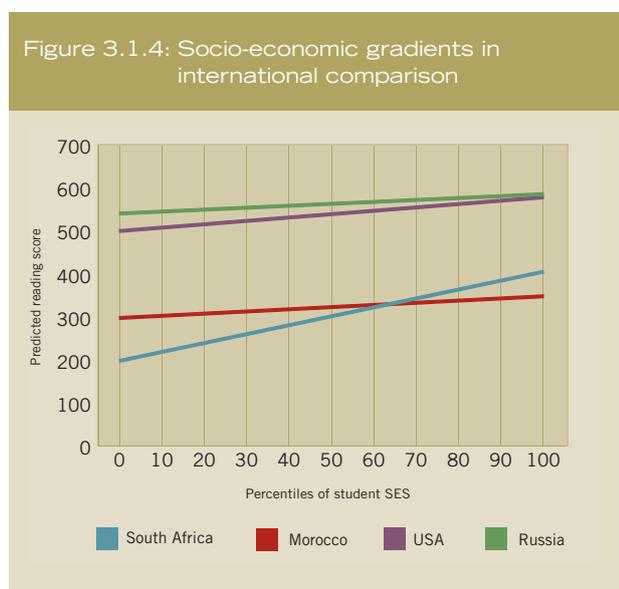
The fact that the gradients for South Africa and Morocco lie considerably beneath those for Russia and the USA is indicative of the overall differences in the *level* of performance between these two pairs of countries. A second point of interest is the *slope* of the gradients, as these indicate the extent to which reading scores vary with SES. The slope, therefore, is a measure of the educational inequality that is

associated with SES. It is evident that the gradient is significantly steeper for South Africa than any of the other countries. This means that movements along the socio-economic distribution in South Africa are associated with greater changes in reading achievement than is the case in the other countries. Further, the *strength* of the gradients can be described by the proportion of the overall variation in reading achievement that is attributable to SES. The regression statistics indicated that for South Africa about 23 per cent of the variation in reading scores was attributable to SES. In contrast, less than 3 per cent of reading score variation in Russia was due to SES. Approximately 4 per cent and 9 per cent of reading variation was attributable to SES in Morocco and the USA, respectively. This indicates that the strength of the gradients is by far the greatest for South Africa.

To summarise, South Africa registered the lowest overall level of reading achievement in the PIRLS. It also had the highest variance in achievement of all the countries. Comparatively speaking, reading achievement varies widely with SES in South Africa. Moreover, SES explains more of the overall variance in reading scores in the case of South Africa than it does elsewhere.

The bimodality of educational achievement in South Africa prompts a disaggregated analysis of socio-economic gradients by the two school 'sub-systems'. Figure 3.1.5 displays separate socio-economic gradients for those schools in which the test was taken in an African language and for those schools in which the test was taken in English or Afrikaans and where at least 25 per cent of the students reported always speaking the language of the test at home. Note that the percentiles of SES were calculated based on the entire South African sample. Therefore, students located within the two systems at the same point on the horizontal axis are indeed comparable in terms of their absolute level of affluence. It should also be kept in mind that the bulk of students in Afrikaans and English schools are at the upper end of the SES ranking, as Figure 3.1.3 illustrates.

The first noticeable difference between the two gradients in Figure 3.1.5 relates to the *level* of performance. Students located in the Afrikaans/English system performed at a considerably higher overall level. The *slopes* of the two gradients also differ substantially. Despite the steep slope for the overall South African gradient (in Figure 3.1.4) and the steep slope within the Afrikaans/English system, the socio-economic gradient for students in African language schools is remarkably flat. Moreover, a small proportion of the overall variance in reading scores within African language schools is attributable to SES – just under 4 per cent compared with



Source: Progress in International Reading Literacy Study (PIRLS)

nearly 28 per cent within Afrikaans and English schools. This means that the benefits of coming from an affluent home are relatively small for students located within the less well functioning part of the South African school system. It might be argued from this that school (dys)functionality appears to be a fairly binding constraint on educational achievement. If parents recognise this, then they will naturally aim to secure places for their children in better functioning schools. In this sense, the gap between the two gradients in Figure 3.1.5 might offer an explanation for the phenomenon of middle-class black flight out of historically black schools. Having the means to do so, more affluent black parents will choose to send their children to the better functioning part of the school system, where they should reach a higher level of academic achievement.

Figure 3.1.5 clearly confirms that there are two very differently performing parts of the South African school system, in which separate data-generating processes occur. Not only do the two systems perform at different levels of achievement, but the effect of SES operates differently across the systems.

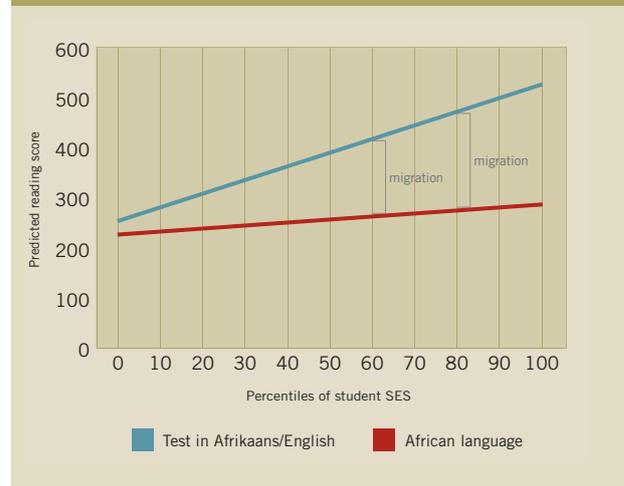
In Figures 3.1.4 and 3.1.5, a straight-line shape has been imposed on the gradients by the model specification. In order to test whether this assumption of linearity is legitimate when expressing the relationship between SES and reading achievement, Lowess regressions were fitted for South Africa, Morocco, Russia and the USA.<sup>7</sup> The shape of a Lowess curve is determined by the data, rather than by the imposition of a model specification. This confirmed that for Morocco, Russia and the USA, the relationship between SES and reading achievement was indeed approximately linear. However, for South Africa the relationship between SES and reading achievement appeared to be non-linear and convex. This means that the association of SES and reading scores is stronger at higher levels of SES.

Figure 3.1.6 shows the Lowess regression curve for South Africa as a whole, as well as separate Lowess curves for schools in which the test was taken in English or Afrikaans (and where at least 25 per cent of the students always spoke the language of the test) and for African language schools. It should be noted that in Figure 3.1.6 the relationship is between school mean SES and school mean reading achievement as opposed to the student level.<sup>8</sup> For further descriptive value, a scatter plot of the African language schools is included in the figure.

As already highlighted, the relationship between SES and reading achievement for South Africa at large appears to be non-linear. However, it is evident that the steep section of the Lowess curve for the overall sample is accounted for entirely

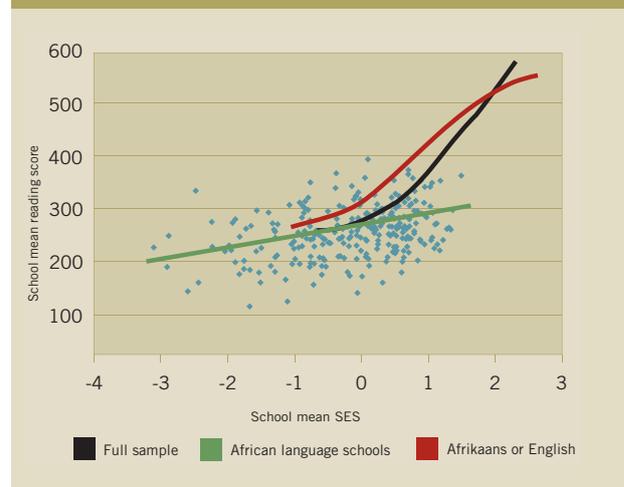
by the Afrikaans and English language group. The flat section of the Lowess curve for the overall sample appears to be driven by the African language group, whose corresponding Lowess curve is rather flat throughout, as Figure 3.1.5 demonstrated. Therefore, the real story might not be one of non-linearity but of two separate data generating processes underlying the relationship between reading achievement and SES.

Figure 3.1.5: Socio-economic gradients by school 'sub-system' in South Africa



Source: Progress in International Reading Literacy Study (PIRLS)

Figure 3.1.6: Lowess regression curves for each school 'sub-system' in South Africa



Source: Progress in International Reading Literacy Study (PIRLS)

What is also striking about the scatter plot in Figure 3.1.6 is that not a single African language school scored above the low international benchmark score of 400. Recall that educational experts consider students scoring below 400 to be 'at serious risk of not learning how to read' (Trong 2009: 123). This result, therefore, is indicative of how extensive the problem of poor educational achievement is in the historically black part of the school system. It is also noteworthy that beyond a certain level of school mean SES, no African language schools are to be found. This probably relates to the phenomenon of middle-class black flight out of historically black schools. This phenomenon appears to have produced a situation where no historically black schools have affluent student bodies. Thus, the overall picture that emerges from Figure 3.1.6 is that children in historically and predominantly still black schools are performing dismally in general, while those black children who can afford to are escaping the system. The way to think about the effect of SES on educational achievement in South Africa, therefore, may be in terms of a sort of 'two-step' process: home SES is crucial in determining which school system one enters; then, for those in the historically black system, the chances of achieving high quality educational outcomes are small, regardless of home SES. The following section probes the role of schools and differences between schools in the effect of SES on reading achievement in South Africa.

### **SCHOOLS: INSTITUTIONS THROUGH WHICH THE IMPACT OF SOCIO-ECONOMIC STATUS IS MEDIATED**

The overall variation in reading scores can be divided into variation due to differences between students within each school and variation due to differences between schools themselves. To illustrate this, consider that if schools were identical in nature and quality then all the variation in reading achievement would be due to differences between students. The 'between-students' or 'within-school' variation and the 'between-school' variation can be estimated using Hierarchical Linear Modelling (HLM), which is a technique that analyses student-level variation and school-level variation separately. HLM involves a fairly complex methodology that is discussed in further detail elsewhere by Taylor and Yu (2009). It can be used to calculate what is known as an intra-class correlation coefficient or *Rho* value. *Rho* is simply the ratio of between-school variance to overall variance. Thus, in a country in which each school was identical, *Rho* would equal zero. Conversely, if all the variation in reading scores was determined by school-level factors, the *Rho* value would be equal to one. *Rho* values were

generated for each of the participants in PIRLS 2006. Note that the *Rho* values say nothing about the impact of SES or any other student or school-level characteristic on reading scores. They indicate only how much of the overall variation in reading scores is attributable to within-school variation and how much to between-school variation. The results are presented in Figure 3.1.7.

Once again, South Africa is an outlier amongst the PIRLS participants, with the highest *Rho* value by some way. This means that between-school variation accounts for a larger proportion of overall variation in South Africa than in any of the other countries. In almost all of the countries, the majority of the overall variation is attributable to differences between students or 'within-school' variation. Innate ability, home SES and many other student characteristics contribute to differences between students. In South Africa, however, the majority of variation is due to differences between schools. This indicates that an important dimension of reading achievement in South Africa is differences in school quality throughout the system.

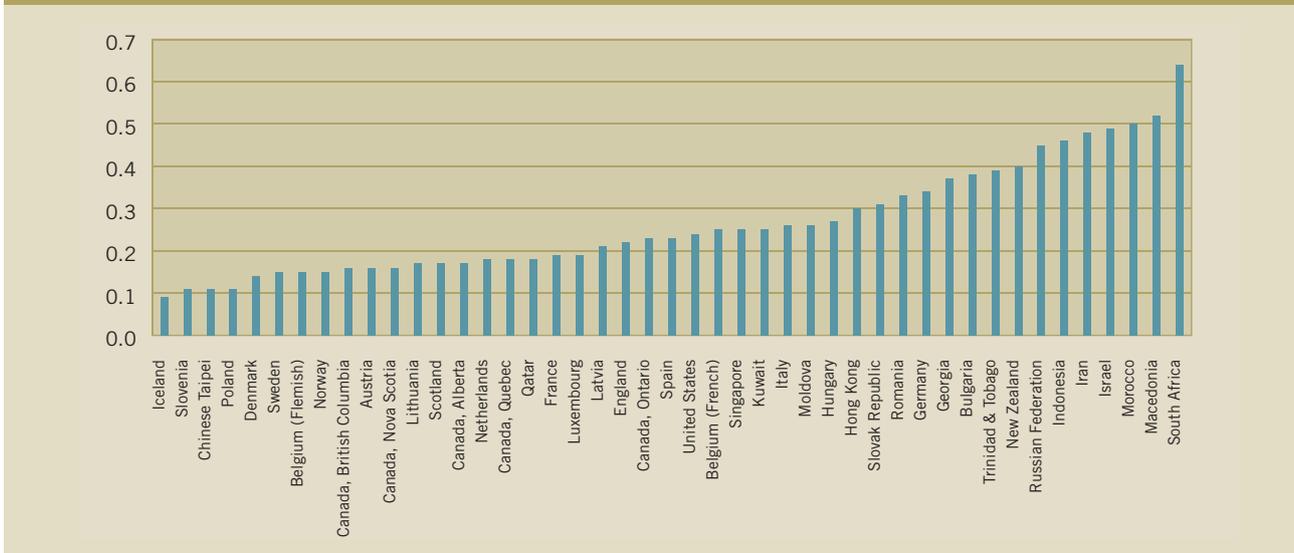
It is important to bear in mind that the *Rho* values offer no information about which school characteristics contribute to between-school variation, only the extent to which variation in reading achievement is due to differences between students and due to differences between schools. The major focus in this article is the impact of SES on reading achievement. Therefore, a type of decomposition technique was applied, in order to investigate the role of schools and school mean SES in the broader impact of SES on reading achievement in South Africa.

One can think of the effect of SES on reading achievement as consisting of a direct effect and an indirect effect. The direct effect is through home support factors and the indirect effect is through determining the type of school students have access to, in particular the SES of school peers, which, in turn, impacts on educational achievement. As was suggested in the previous section, student SES appears to play a major role in the allocation of students to the two historically different parts of the school system. Once this allocation has taken place, the mean school SES affects educational achievement, while individual SES continues to have a direct influence through home support factors. The logic of this is expressed by the schematic Figure 3.1.8.

Happily, it is possible to separate out these direct and indirect effects empirically. A technique was applied to decompose the correlation between student SES and reading scores into the direct effect of home SES and the influence of home SES on the mean SES of the school students attend.<sup>9</sup>

This decomposition yielded a direct effect of 21.34 per

Figure 3.1.7: Proportion of variation due to differences between schools for PIRLS participants (*Rho*)



Source: Progress in International Reading Literacy Study (PIRLS)

cent and an indirect effect of 78.66 per cent. This means that 78.66 per cent of the (sizeable) correlation between student SES and reading achievement occurs indirectly via the mean SES of the school that students gain access to. Only 21.34 per cent of the correlation is accounted for by direct effects, including the various aspects of home support. This is an important insight into the critical role that selection into differently performing sub-sectors of the South African school system plays in the way that SES affects educational outcomes.

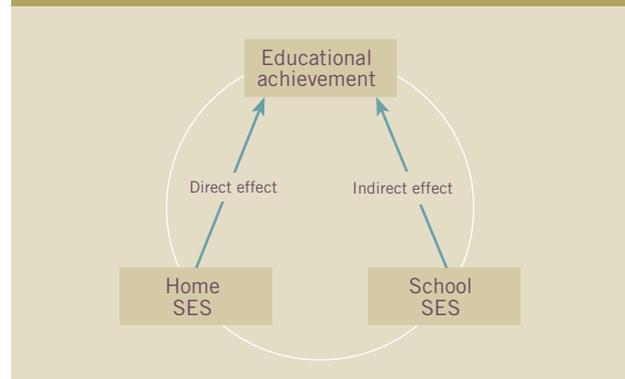
### BLEAK PROSPECTS FOR SOCIAL MOBILITY

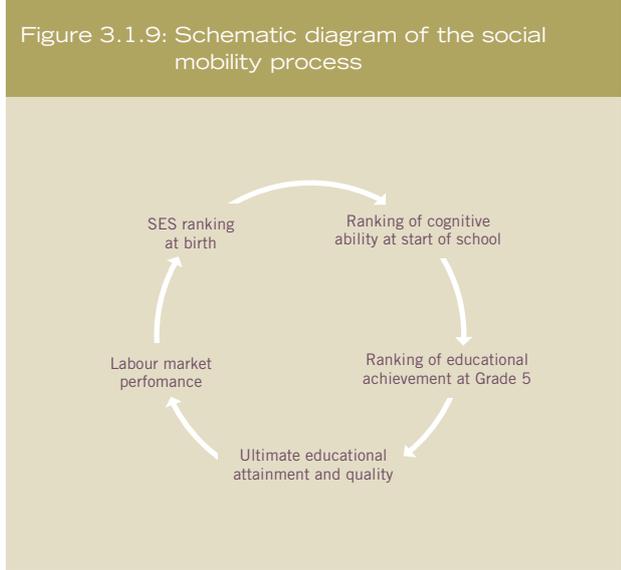
It has been shown that reading achievement amongst South African children is alarmingly low and that reading scores are strongly associated with SES. Moreover, a large part of the impact of SES occurs through selection into one of two very differently functioning ‘sub-systems’ within the country’s school system. This scenario has profound implications for future social mobility in South Africa. The closing parts of this article provide some discussion around this pertinent issue.

Consider the schematic diagram of how education feeds into the process of social mobility and intergenerational mobility displayed in Figure 3.1.9. One could rank a cohort of individuals at birth according to the SES of their home. This

ranking is likely to be strongly correlated with the ranking of cognitive ability at the start of school. Research by Lee and Burkham (2002), for example, has demonstrated that the cognitive ability upon starting school of high-SES children is significantly higher on average than that of children from poor homes. The impact of SES continues through school, both directly and indirectly by virtue of the school one gains access to, as this article has shown, such that the ranking of students in terms of reading achievement at Grade 5 is

Figure 3.1.8: Direct and indirect effects of socio-economic status on educational achievement

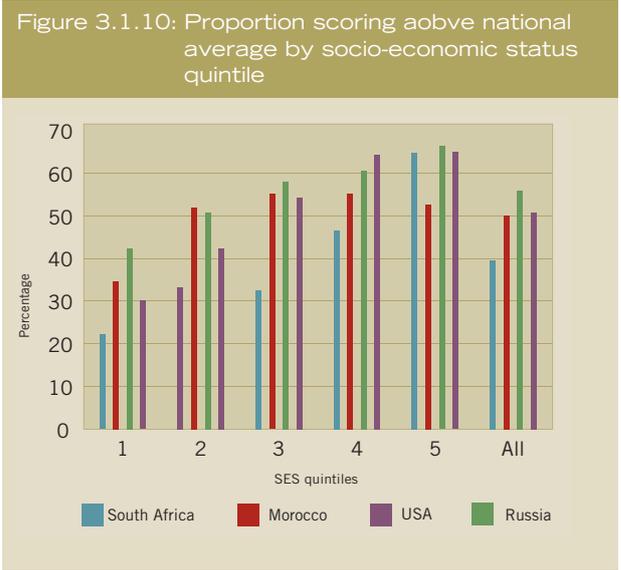




strongly associated with SES. Cognitive ability at Grade 5, in turn, influences ultimate educational attainment and the quality thereof. Finally, the earnings function literature has demonstrated that educational attainment and cognitive skills are consistently associated with a higher probability of being employed and higher earnings in the labour market. The cycle is continuous in Figure 3.1.9, reflecting intergenerational mobility.

The process described above probably applies to every society, although the strength of each link determines the extent to which social mobility can occur, and this varies across societies. The socio-economic gradients presented in this article have already given an indication that in South Africa the ranking of educational achievement at Grade 5 is particularly strongly associated with SES by international comparison. Figure 3.1.10 presents another indication of the prospects for social mobility in South Africa relative to other countries. Students in South Africa, Morocco, Russia and the USA were divided into quintiles of SES, separately for each country. The figure shows the proportions scoring above the respective national average scores in the PIRLS in each quintile.

Amongst the poorest 20 per cent of South African students, only 22 per cent managed to score above the national average score of 302, which is itself a standard deviation below the low international benchmark score of 400. In Morocco, where a comparable overall level of performance was achieved, 35 per cent of the poorest quintile of students managed to score above their national average score of 323.



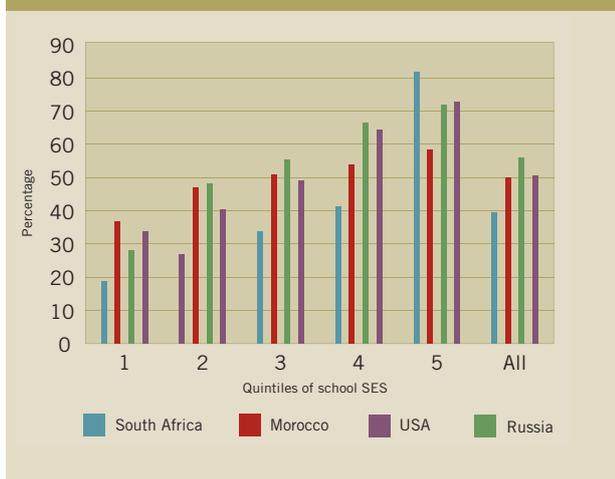
Source: Progress in International Reading Literacy Study (PIRLS)

It is striking that in Russia 42 per cent of the poorest quintile of students scored above the very high national average of 565. This indicates that Russian children have a very good opportunity to achieve well educationally, even if they are poor. Given the links between educational achievement and the labour market, the performance of the Russian education system appears to be conducive to social mobility.

Figure 3.1.11 offers a slightly different perspective. Now students have been split into quintiles according to the mean SES of the schools they are in. Only 19 per cent of students in the poorest quintile of schools in South Africa managed to score above the national average of 302. This confirms that schools in South Africa are institutions where the impact of SES is intensified. Being poor is a serious disadvantage educationally, but being located in a school where poor students are concentrated is even more disadvantageous. Consistent with the pattern in Figure 3.1.10, greater proportions of students in poor schools were able to achieve more than their respective national averages in Morocco, Russia and the USA (see Figure 3.1.11).

The opportunity for poor students to achieve well educationally relative to other students in the same country is small in South Africa compared to other countries. Poor students in South Africa tend to be concentrated in a part of the school system that is performing at a disturbingly low level, thus further diminishing the opportunity for poor children to acquire a good quality education. In this way, it can be said that the performance of the South African school system does not appear to be very conducive to social

Figure 3.1.11: Proportion scoring above national average by school mean socio-economic status quintile



Source: Progress in International Reading Literacy Study (PIRLS)

mobility. Put differently, the prospects for future social mobility implied by the patterns in reading achievement amongst South African children are fairly bleak.

## CONCLUSION

The school system has a pivotal role to play in the processes of social mobility and transformation, which are high priorities on the developmental agenda for South Africa. The extent to which poor children have an opportunity to achieve well educationally is an indication of the level of social mobility that is possible in a society. The overall level of educational achievement of South African children is so low that the situation is increasingly being recognised as a crisis. As is so often the case, the poor are suffering the most under the crisis – wide discrepancies in educational achievement persist on the basis of SES, as this article has shown. The impact of SES on educational achievement is particularly severe in South Africa by international standards.

In trying to understand the mechanics of how SES influences educational achievement in South Africa, it is important to recognise that there are essentially two differently functioning parts of the school system. Home SES is crucial in determining which school system one enters; then, for those in the historically black system the chances of achieving high quality educational outcomes are small, regardless of home SES. In this way, the indirect effect of SES via the quality of school children gain access to is perhaps more substantial than the direct effects of SES, such as the

Being poor is a serious disadvantage educationally, but being located in a school where poor students are concentrated is even more disadvantageous.

kind of educational support children have at home. Therefore, if the education system is to contribute to transformation in the way one would hope, serious interventions are needed to improve functionality within the historically black and chronically underperforming section of South Africa's schools.

## NOTES

1. Perhaps, it would have been better to test Grade 4 students in South Africa and to treat the issue of multiple languages of instruction as one factor feeding into educational performance, rather than to attempt to build this into the design of the survey.
2. The standard deviation is a measure of the spread around the average. A standard deviation of 100 indicates that most of the observations fall within 100 points either side of the scale average of 500.
3. The mean is a type of average calculated by summing all the values and dividing by the total number of observations.
4. The median is another type of average. If one ranks all the values in ascending order, the value that is perfectly in the middle (with the same number of values before and after) is the median.
5. The index for SES was derived using a technique called Principal Components Analysis (PCA). For a detailed explanation of PCA and the application of it to create an asset-based index in the PIRLS, see Taylor and Yu (2009).
6. It should be noted that a point along the horizontal axis does not represent the same absolute level of affluence across the countries. Rather, individuals occupy the same relative position or ranking within the socio-economic distribution of their respective countries.
7. The Lowess regression lines for these countries are not displayed here. Lowess regressions do not require a linear or quadratic model specification but carry out locally weighted regressions at each data point and smooth the result through the weighting system.
8. School mean SES is simply the mean of all the students' scores on the asset-based SES index, for each school.
9. This decomposition technique is appropriated from Bowles and Gintis (2002), who applied it to estimating the direct and indirect effects of parental income on the future income of their children.

# briefing

## THE NATIONAL BENCHMARK TESTS PROJECT: ADDRESSING STUDENT EDUCATIONAL NEEDS IN THE TERTIARY EDUCATION SYSTEM

Nan Yeld

### INTRODUCTION

Evidence of the size and extent of the challenges that are being faced by higher education in South Africa have been widely reported. One of the most recent studies (Scott, Yeld & Hendry 2007) revealed that in almost all programmes at contact universities (that is, excluding distance education, where graduation rates are understandably lower), only about half of an intake will graduate within a reasonable time (usually viewed as minimum time plus two years). In what used to be known as technikons, the graduation rate is even lower, with only about a third of students graduating within a reasonable time.

Since the students entering higher education represent a fairly small elite, this dismal performance constitutes a real challenge. South Africa's participation rate – defined as the total higher education enrolment (of all ages) expressed as a percentage of the 20–24-year age group – is currently about 16 per cent, far short of the state's target of 20 per cent. Even if the higher education sector were more efficient in producing graduates, its output numbers would still fall short of the country's need of skilled graduates to meet our developmental requirements.

It is a truism to say that higher education, in any country, has no choice but to begin its programmes where the schooling system leaves off. One of the most common responses of higher education institutions to the need to develop and provide support of various kinds for under-prepared students, nevertheless, is that this is not the job of higher education, but of schools. However, as has been pointed out in reference to the situation in the USA, 'those halcyon days when all students who enrolled in college were adequately prepared, all courses offered at higher education institutions were "college level" and students smoothly made the transition from high school and college simply never existed. And they do not exist now.' (Merisotis & Phipps 2000: 69)

This is not to suggest, of course, that urgent attention should not be given to improving schooling – that is an

imperative. In the meantime, however, higher education has no choice but to improve the main variable under its control – its own curricula. Whether such improvements can fully compensate for the legacy of poor schooling remains to be seen. The results of comprehensive and well-implemented foundation and extended programmes are very encouraging, but it is in the 'mainstream' curricula that efforts need to be more vigorously targeted, since, as the early National Benchmark Test (NBT) results and the experience of many years tells us, educational under-preparedness is very much a majority phenomenon.

In almost all programmes at contact universities only about half of an intake will graduate within a reasonable time. In what used to be known as technikons, the graduation rate is even lower, with only about a third of students graduating within a reasonable time.

### THE NATIONAL BENCHMARK TESTS PROJECT

The National Benchmark Tests Project (NBTP) was designed with the overarching aim of assisting higher education to increase its graduate outputs. That there is a problem with South African graduation rates is by now common cause, and while it is generally agreed that widening access to groups previously denied opportunities is a worthy aim, it is argued that the most urgent action right now must be for universities to cater more effectively for the learning needs of the students currently in the system.

The NBTP was commissioned in response to this challenge in 2005 by the sectoral body, Higher Education South Africa (HESA), with the following four objectives:

- to assess entry-level academic and quantitative literacy and mathematics proficiency of students;
- to assess the relationship between higher education entry-level requirements and school-level exit outcomes;
- to provide a service to higher education institutions requiring additional information to assist in placement of students in appropriate curricular routes; and
- to assist with curriculum development, particularly in relation to foundation courses.

The NBTPs have been designed to provide criterion-referenced information to supplement the National Senior Certificate (NSC), the new qualification at the end of schooling. Criterion-referencing refers to a process in which performance is assessed against prescribed levels, irrespective of how many candidates meet, or do not meet, a particular level. The NSC, on the other hand, is of necessity norm-referenced (the practice of adjusting scores to historical, expected or desired patterns, rather than basing them on actual performance). This means that the results from the NSC yield information that sometimes tells us very little about candidates' actual levels of achievement. It is, therefore, difficult for institutions to use NSC results to prepare in advance to meet the educational needs of their incoming students as effectively as possible.

The NBTP employs two tests, which assess three domains believed to be key for successful university-level study.

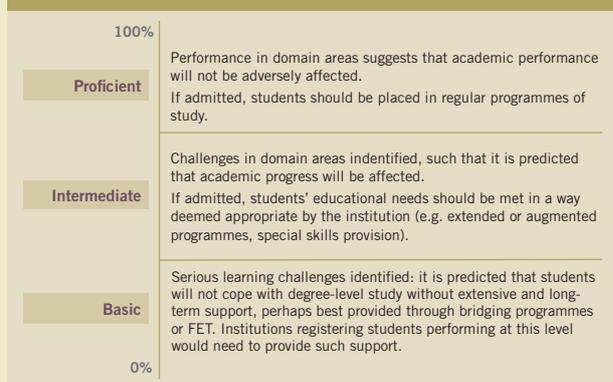
The first test, known as the Academic and Quantitative Literacy Test, is designed to be written by all applicants, irrespective of field of study. The test targets the capacity of students to engage successfully with the cognitive demands of academic study in the medium of instruction (academic literacy), as well as their ability to manage situations or solve problems in a real context that is relevant to higher education study, using basic quantitative information that may be presented verbally, graphically, or in tabular or symbolic form (quantitative literacy). Thus, the Academic and Quantitative Literacy Test is made up of two tests, which are combined into one, and the results of each component (the academic and the quantitative) are reported separately.

The second test is designed to cover the subject of mathematics (Papers 1 and 2) in the new school curriculum, and is written by students applying for programmes that require mathematics. It targets students' ability in terms of mathematical concepts formally regarded as part of the secondary school curriculum (and tested in the NSC).

The NBTP sets out to categorise performance into three benchmark levels, described below. In each benchmark level, a judgement of risk is given, along with an indication of the level of support that is likely to be needed if students are to have a chance of gaining a degree of quality within a reasonable time. The benchmark levels in each domain (that is, the 'cut-scores' between each level) were set by national panels led by psychometricians from the Educational Testing Service in Princeton, New Jersey.<sup>1</sup>

In terms of operation, the development and implementation of the NBTP was outsourced to the Centre for Higher Education at the University of Cape Town, a unit with long experience in working across the sector on entrance and

Figure 3.2.1: NBTP performance benchmark levels



placement testing at the school/higher education interface. In keeping with the notion of institutional autonomy, institutions can choose whether and how to participate. Essentially, the two main decisions for institutions in relation to participation are whether to require applicants to write the tests during the year prior to entry, in which case information would be gained in time to prepare adequate curriculum responses, or during registration, which would allow less time for curriculum development, but would provide important information on the educational needs of entering students.

The NBTP would undertake ongoing development, production and operationalisation of the tests, and would be answerable to HESA, the institutions, the test writers and the Department of Education in the form of reports designed to yield information about areas of strength and weakness revealed by the tests.

In February 2009, more than 13 000 students, spread across disciplinary areas and higher education institutional types, wrote the final NBTP pilots (extensive field testing and item reviews had preceded this). This was the earliest possible time for the pilots, as it was necessary for the NBTP to wait until the target candidates (Grade 12s) had completed the new curriculum that culminates in the NSC (i.e. it was necessary to wait until the end of 2008). The NBTP is now operational.

## ACADEMIC LITERACY

Academic literacy is commonly understood to include those aspects of language that are required by contexts of learning and teaching and are highly dependent on reading and writing as vehicles for meaning construction – in other

words, as a tool for learning. These contexts are customarily found in formal education. For example, in a higher education context, students are required to be able to:

- understand and interpret conceptual and metaphorical language;
- identify and track academic argument;
- follow discourse structure in text;
- make inferences about and extrapolate from what they read; and
- understand the conventions of visual literacies, such as reading and interpreting graphs, flow-charts and diagrams.

Students who have difficulties with academic literacy experience serious challenges in degree study. By way of illustration, some of the more common difficulties can be understood as follows: students tend to plagiarise or copy chunks of what they have read, because they have great difficulty making what they have read their own; or they tend to describe concepts or phenomena, rather than to analyse these, and to offer tautologies rather than to justify or build arguments (for example, a student might say that ‘the minister was not correct because he was wrong’, rather than building an argument to support the assertion that the minister was wrong by demonstrating incorrectness). Another very common difficulty for students is to stand back and use a framework for analysis rather than writing from a highly subjective viewpoint; in such a situation, they tend to rely very strongly on their own life experiences as a basis for analysis rather than using frameworks derived from disciplinary theory.

In addition to these general difficulties, the students in the February 2009 sample revealed serious weaknesses in the following areas: basic grammar and syntax, understanding genre (‘audience’, register, tone), distinguishing main points from surrounding detail, and following arguments in text (Cliff, personal communication, October 2009).<sup>2</sup>

Of course, all students experience these difficulties to some extent. It is, after all, part of what they have come to university to learn. The point is, though, that for many students, their very poor preparation for academic study will impact seriously on their chances of attaining a degree of quality in a reasonable time, unless they are given appropriate levels of support. This point was made strongly by the Ministerial Committee on Discrimination (DoE 2008), which argued that difficulties with the medium of instruction are undoubtedly a contributing factor to poor performance, and impact on success and throughput rates.

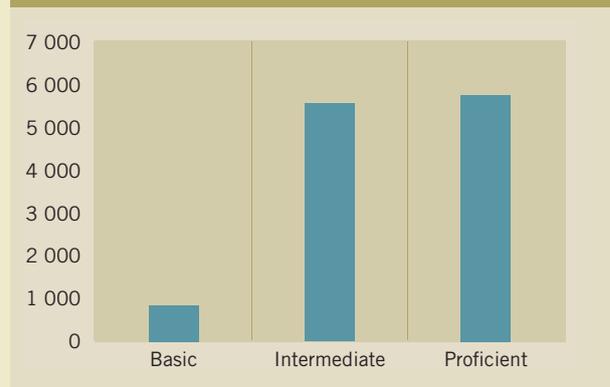
The extent of the problem for higher education in respect of academic literacy is shown in Figure 3.2.2.

It can be seen that the largest single category for academic literacy in the prevalent medium of instruction in higher education (English) is the ‘proficient’ band. However, almost as many students fall into the ‘intermediate’ category, and if one adds the numbers of students in the ‘basic’ category, those less than ‘proficient’ constitute a majority. This outcome aroused considerable concern in the media, but did not come as a surprise to academics and managers in higher education, where (as noted previously) fewer than half of the students that enter higher education will leave with a qualification.

The poor achievement levels in the domain of academic literacy strongly point to the need for higher education institutions in South Africa to provide extensive support in language development, not only for a small minority of registered students, but for the majority.

Language-related support can take a number of forms. The most obvious model is that of a separate ‘English for academic purposes’ (EAP)-type course. This is particularly tempting as it means that the rest of the curriculum can remain unchanged; the problem, of course, is that transferring the knowledge and skills learned in the EAP course is notoriously difficult, and often the benefits are very limited. Other models involve applied linguists or similar appropriately trained staff working alongside academics in disciplinary courses, ensuring that assignments, course materials and so forth are designed in such a way as to address the development of the needed skills; such ‘embedded’ approaches, while slow and time-consuming, are regarded generally as more effective in building lasting abilities.

Figure 3.2.2: February 2009 pilot results, academic literacy



Source: National Benchmark Tests Project (NBTP), Higher Education South Africa (HESA)

The poor achievement levels in the domain of academic literacy strongly point to the need for higher education institutions in South Africa to provide extensive support in language development, not only for a small minority of registered students, but for the majority.

Since few courses currently take it for granted that they need to provide language-related support, the provision of appropriate levels would entail a considerable step up in this regard for the sector.

### QUANTITATIVE LITERACY

The NBT quantitative literacy test assesses many of the outcomes of the new school subject 'mathematical literacy'. For example, it assesses students' understanding of common quantitative terms and phrases, the extent to which they can apply known quantitative procedures in familiar situations, read and interpret straightforward tables, graphs, charts and texts, perform routine calculations and identify trends/patterns in familiar situations.

The low levels of achievement in the domain of quantitative literacy in the NBT revealed in Figure 3.2.3 suggest that the school curriculum has a long way to go before it realises its aims, despite the very high pass rate reported in mathematical

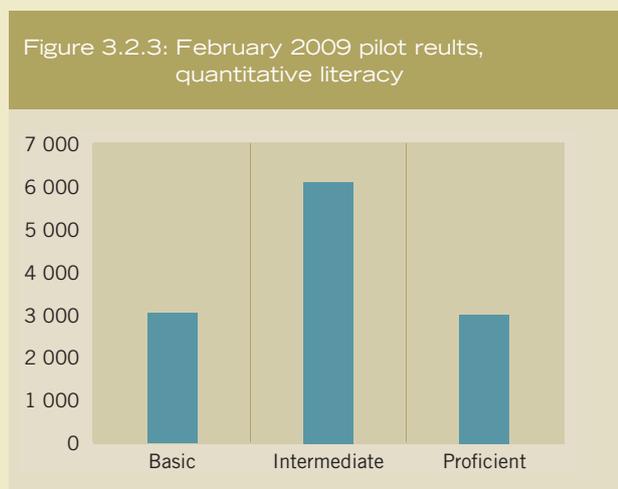
literacy at the end of 2008. The pass rate appears to have been achieved largely because the examination contained very few challenging questions. However, the NBT quantitative literacy results do confirm the need for the new NSC subject of mathematical literacy, and it is to be hoped that future teaching and assessment of this subject will be more realistic.

In order to illustrate the kinds of abilities and challenges demonstrated by the candidates in the sample, some examples are provided – these are somewhat arbitrary but are given to provide a sense of this much misunderstood domain rather than to reflect overall trends. Students revealed real difficulties in calculating percentages or comparing quantities using data from different representations (such as tables, bar or pie charts and annotated maps). They were able to identify data-points in scatter plots given the x- and y-values, but experienced difficulties in determining the percentage of data points in the scatter plots that satisfy particular constraints. Translating between verbal and graphical descriptions of linear functions proved challenging, as, for weaker students, did almost all operations involving percentages, such as increasing a given number by a given percentage (Prince, personal communication, October 2009).<sup>3</sup>

Across the system, the general neglect of the need to address students' low quantitative literacy competence levels is of concern, since quantitative literacy has a central place in most disciplines, where students are required to interpret tables, understand percentages, basic proportions and trends, and so forth. One needs only to think of disciplines such as psychology, geography, sociology, history, zoology, economics and political studies to realise the extent to which much of the learning undertaken by students in our universities requires a sound quantitative foundation for success.

Currently, however, few universities make any structured provision for developing student knowledge and skills in this domain. Some do, however. In at least two law faculties, students cannot graduate without demonstrating acceptable levels of competence in quantitative literacy. They can do this by achieving 'proficient' levels in an appropriate test, such as the NBT quantitative literacy component of the academic and quantitative literacy test, or by taking and passing a special-purposes course designed to teach quantitative literacy in a legal studies context. The motivation for this requirement stems from concerns about law graduates' abilities in assessing claims and counter-claims based on quantitative evidence, and the serious consequences of errors in this context.

Meeting needs in this domain would clearly require a fundamental mind shift for many institutions.



Source: National Benchmark Tests Project (NBTP), Higher Education South Africa (HESA)

## MATHEMATICS

The mathematics test, otherwise known as the Cognitive Academic Mathematical Proficiency (CAMP) test, sets out to assess students' manifest ability related to mathematical concepts formally regarded as part of the new secondary school curriculum. It needs to be emphasised, particularly in the light of the poor overall results in this domain, that manifest ability has no direct relationship to innate ability: the NBTs simply set out to assess how much of a particular domain (in this case, the mathematics curriculum) has been mastered at a particular time. Therefore, the results should not be used to infer what a student might have achieved or could achieve with appropriate input and support.

Much has been written about the controversial NSC 2008 mathematics results. According to the NBTP tests, very few students achieved results that would place them in the 'proficient' category, providing some support for doubts about the very large number of students achieving over 70 per cent in the NSC examination in this subject in 2008. The challenge faced by higher education institutions in relation to mathematics is clearly enormous, and with the current emphasis on the production of graduates in scarce skills areas such as engineering and science, the need for curriculum responsiveness and remediation in this area is evident.

It is worth noting that the mathematics standards for the benchmark cut-scores are set against the core mathematics curriculum for Papers 1 and 2, and what the higher education sector (represented by mainstream academics currently teaching mathematics at the first-year level) believes students need to know and be able to do to cope with first-year study in mathematics.

It can be seen in Figure 3.2.4 that universities need to provide support for almost all their students entering programmes of study that require competence in mathematics. Meeting this need would require a fundamental rethinking of provision at first-year level in mathematics, and it remains to be seen whether this will be fully recognised and undertaken by the sector.

The following examples illustrate the kinds of competencies and difficulties revealed by the students in the sample. Students find simple data-processing questions reasonably easy, and are able to handle direct application of rules (e.g. finding a simple derivative). On the other hand, serious weaknesses were demonstrated in such areas as algebraic manipulation, interpreting functions (graphic or algebraic representations), trigonometry, spatial awareness (i.e. insight into shapes and their properties), and mathematical modelling or problem solving involving more complex

reasoning procedures (Bohlmann, personal communication October 2009).<sup>4</sup>

Figure 3.2.5 shows the NBT mathematics results of all the students in the sample who were entering the faculties of commerce, engineering and science. The 'intermediate' benchmark band has been divided into 'high' and 'low', since in this first cycle of NBT use it is better to err on the cautious side and reflect the numbers of students whose performance just missed the 'proficient' level.

As these are the most competitive faculties from the point of view of admissions, one would expect a very high number of students to obtain a 'proficient' categorisation. This was not the case, however. It can be seen that in the commerce faculties in the sample, which included two of the most selective universities in the country, only 372 students met the 'proficient' benchmark for mathematics. If one adds to this the number of students in the 'high intermediate' category, there are 1 271 students who ought to succeed given some level of assistance. Against this, there are 1 866 students who require extensive support, and nearly one thousand who will need ongoing, comprehensive assistance.

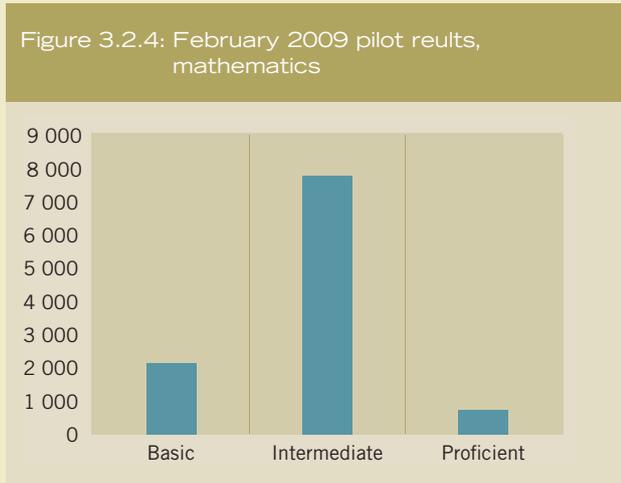
The results shown in Figures 3.2.4 and 3.2.5 may be interpreted in a number of ways.

First, it could be argued that the NBT test in mathematics is unrealistically difficult. If this is so, institutions should exercise caution in interpreting the results, and should perhaps view the 'top intermediate' as being relatively 'proficient'. Even if this is done, however, it adds very few students to the 'proficient' band, as illustrated in Figure 3.2.5.

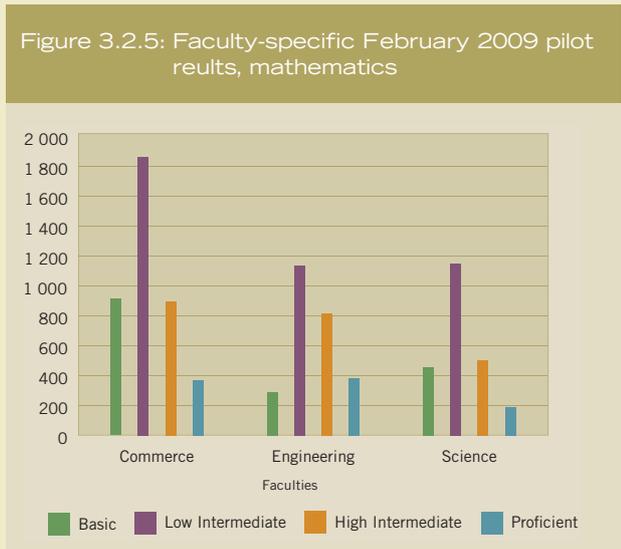
Another interpretation could be that the NSC examination is set at too low a level, possibly approaching that of Standard Grade in previous years. Research conducted under the auspices of Umalusi (the quality assurer for the NSC) suggests that this is indeed the case for mathematics. The problems of the new subject defaulting to this level are obvious, and support the value of a system such as the NBTP to act as a monitor in respect of standards against agreed curricula. It is by now widely recognised that the NSC did not differentiate sufficiently at the top levels, resulting in a very inflated number of high passes.

A further interpretation is that the new Curriculum Statement for mathematics is not being taught in its entirety at schools: here again, the problem is obvious, not only because the coherence of the curriculum is questionable in such a scenario, but also because higher education and other stakeholders (employers, the public and parents, for example) are in the dark about which parts are and are not being taught.

Whichever explanation is accepted (and there are surely



Source: National Benchmark Tests Project (NBTP), Higher Education South Africa (HESA)



Source: National Benchmark Tests Project (NBTP), Higher Education South Africa (HESA)

many more possible interpretations), the fact remains that higher education is facing a very serious problem in respect of the mathematics knowledge and manifest ability of its entering classes.

### THE NBT, THE NSC AND PERFORMANCE IN HIGHER EDUCATION STUDY

Clearly, the NBTs produced results different from the NSC. This is to be expected, since although the skills and knowledge tested by the NBTs are specified in the Curriculum Statements on which the NSC examinations are based, the NBTs focus on assessing the kinds of knowledge and competence that

are needed for successful tertiary study. Having said this, however, it must be acknowledged that at present the gap between the two assessments is large, and that this is of concern.

For higher education institutions, the important issue is to investigate the extent to which the NSC and NBT results could be used in selection and placement at entry level.

The analysis reported here is based on the performance of students at the end of the first semester (2009) at one of the country's most selective universities, and was conducted by Robert Prince and Andrew Deacon of the Centre for Higher Education Development at UCT. It should be noted that both the NSC and the NBT are very new examinations, and that there is thus as yet little data on which to base conclusions. Longer-term cohort studies will be conducted when this is possible.

Looking at performance in a large first-semester mathematics course, they found that the NBT at both the 'proficient' and 'high intermediate' levels was the better predictor of performance at university than the NSC, although both were satisfactory (it should be noted that the very selective nature of this institution and course means that the failure rate is traditionally fairly low). In particular, they found that:

- 6 per cent of the students who achieved a 'proficient' benchmark level result in the NBT mathematics test failed the university mathematics course;
- 17 per cent of the students who achieved a 'high intermediate' benchmark level result in the NBT mathematics test failed the university mathematics course;
- 20 per cent of the students who achieved above 80 per cent for the NSC mathematics examination failed the university mathematics course; and
- 10 per cent of the students who achieved a 'proficient' benchmark level result in the NBT mathematics test *and* obtained over 80 per cent in the NSC mathematics examination failed the university mathematics course (in other words, combining the NSC and NBT results slightly lowered the predictive power of the NBTs but substantially raised that of the NSC).

Performance in the institution's major year-long mathematics course is even more striking. At mid-year, only 46 per cent of the students who had achieved 80 per cent or more on the NSC mathematics examination passed the course. In contrast, 86 per cent of the students who achieved a 'proficient' rating on the NBT mathematics test passed.

These analyses have been replicated with both the academic literacy and quantitative literacy tests, and with different university courses such as economics and chemistry, and very similar results (the NBT results outperforming the NSC as predictors) have been found. Where courses have higher failure rates, the differences are naturally more dramatic.

In addition, the NBTs show gradations within the NSC achievement bands: that is, by no means all the students scoring over 80 per cent in NSC mathematics will fall into the 'proficient' or 'higher intermediate' categories on the NBT in mathematics. There will be students falling into the 'basic' and 'lower intermediate' categories as well. This holds true within the other NSC achievement bands (60–70 per cent, 50–60 per cent, etc.).

This is of particular interest, as it means that institutions can use the NBT scores to 'look into' the NSC achievement bands and see who is likely to need support and who should be able to cope on their own. This will allow institutions to place students more accurately into appropriate curricula, such as extended programmes.

### IS THE NBTP A BARRIER TO ACCESS?

It should be remembered that the NBTP was designed to assist universities in meeting the needs of their incoming students and thereby improving graduation rates. It was not intended to act as a barrier to access – the NSC is the key gatekeeper in this respect.

In the design of the NBTP, it is assumed that students will write the tests in the year prior to admission to higher education. For the great majority of students, this means that they will write the tests in their final school year.

The benefits for higher education are considerable.

First, institutions will gain a clear picture of the size of the challenge confronting them. By way of illustration: the Dean of Commerce at University X will know, by the end of October, what percentage of his or her first-year students are likely to need extensive support, some support or no additional support. At present, this information is not available from the NSC results. This use of the NBTs is not a selection issue – it is about advance knowledge of the levels of support that will have to be provided to meet the needs of an incoming cohort.

The second benefit relates to the value of the diagnostic information provided by the NBTs. The 'size of the problem' (the first point above) tells a dean about the extent of provision that needs to be made. The 'nature of the problem' relates to the kinds of curriculum required to address the gaps in students' knowledge and abilities. This is illustrated

in the benchmark-level descriptors for the NBTP mathematics test. At each benchmark level (proficient, intermediate and basic), it is clearly stated what it is the student can and cannot do.

#### Proficient benchmark level

Proficient writers should be able to demonstrate insight, and integrate knowledge and skills to solve non-routine problems. They should make competent use of logical skills (conjecture, deduction). Tasks typically require competence in multi-step procedures, and include: modelling, financial contexts, multiple representations of functions (including trigonometric), differential calculus, trigonometric and geometric problems (2D and 3D), measurement, representation and interpretation of statistical data and evaluation of statistical models.

#### Intermediate benchmark level

Intermediate writers should be able to perform at the Basic level, and in addition be able to integrate knowledge and skills to solve routine problems. Tasks involve multi-step procedures which require some information processing and decision-making skills, and include: estimation, calculation, pattern recognition and comparison (in numerical, algebraic and financial contexts); solution of equations; use and interpretation of relevant functions represented algebraically or graphically; geometric properties of 2D- and 3D-objects; geometric and trigonometric problems in two dimensions; calculation and application of statistical measures; representation and interpretation of statistical data.

#### Basic benchmark level

Basic level writers should be able to carry out mathematical computations that require direct application of simple concepts and procedures in familiar situations. Tasks involve single-step problems requiring recall and reproduction of basic knowledge or procedures, and include: the real numbers system; simple algebraic contexts; single representations of relevant functions and recognition of their graphs; identification of 2D- and 3D-objects; geometric and trigonometric calculations; identification and use of some statistical measures; simple representation of statistical information.

The third main benefit relates to curriculum development. For curriculum developers, this kind of information is of great value, and it is not obtainable from a norm-referenced, standardised examination such as the NSC, which must of

necessity ensure that marks in any one year do not differ too markedly from those in previous years. This necessity tends to make it very difficult to interpret what, for example, a '5' rating (60–70 per cent) actually means in learning terms.

## CONCLUDING REMARKS

There has been considerable controversy about the NBTP, resulting substantially from confusion and misunderstanding regarding its purposes. HESA commissioned the project specifically out of a concern for university, not school, performance. As has been widely acknowledged, there are serious problems with schooling, but the concerns of HESA and the higher education sector are focused rightly on the performance of students in higher education, and on what to do about this.

Early results from the NBTs suggest persuasively that information from the tests will indeed assist universities in identifying the educational needs of entering students in time to provide appropriate support and, thereby, improve graduation rates and contribute more effectively to national development needs.

The richness of the findings yielded by the tests ought also to provide useful diagnostic information for schooling. Whether the recent separation of the Department of Education into Basic- and Higher- Education Ministries will aid or complicate progress in this regard remains to be seen. On the optimistic side, the two very different functions and *modus operandi* of the two sectors might be well served by a clear delineation of focus. On the other hand, the division might exacerbate the ages-old, unproductive 'blame game' between higher and secondary education. Either way, the role of the NBTP is to identify and report on achievements, strengths, weaknesses and trends, as accurately and clearly as possible, thereby contributing to the improvement of both sectors.

## Notes

1. The Educational Testing Service develops internationally used tests such as the SAT, the TEFL (Test in English as a Foreign Language), and the Graduate Record Examination (GRE).
2. Dr Alan Cliff is the convenor of the academic literacy component of the NBTP academic and quantitative literacy test.
3. Robert Prince is the convenor of the quantitative literacy component of the NBTP academic and quantitative literacy test.
4. Dr Carol Bohlmann is the convenor of the NBT mathematics test.



# review

## FROM JIPSA TO HRD-SA: CONTINUITY AND DISJUNCTURE IN THE DEVELOPMENT OF A NATIONAL HUMAN RESOURCE STRATEGY

Renee Grawitzky

With much talk about a crisis in education and skills, the long awaited Human Resource Development Strategy for South Africa: 2010–2030 (HRD-SA) was expected to bring greater co-ordination, cohesion and focus to developing the country's human capital. A change in the configuration of government structures, coupled with the need of the new administration to meet its electoral mandate, has resulted in the strategy being sent back to the drawing board. In view of this decision, this paper examines the key elements of the proposed strategy, the extent to which it built on the Joint Initiative on Priority Skills Acquisition (JIPSA) experience and the potential challenges that now exist.

In 2005, the Department of Education (DoE) was mandated by the government to revise the country's first post-apartheid human resource development (HRD) strategy, which was released in 2001 under the title *Human resource development strategy for South Africa: A nation at work for a better life*. Within months of this initiative, the government launched the Accelerated and Shared Growth Initiative for South Africa (ASGISA), which singled out skills shortages as one of the most stubborn obstacles to growth and diversification of the economy. This realisation led to the launch of JIPSA in 2006 by the then Deputy President Phumzile Mlambo Ngcuka. A non-statutory forum, JIPSA was viewed as a short-term intervention aimed at addressing the immediate skills shortages facing the country.

Some have argued that the development of JIPSA was a response to the lack of co-ordination within and around HRD in the government. As the JIPSA process unfolded, the government threw its weight behind it and, as a result, the 2001 HRD strategy, due to a lack of prioritisation, failed to gain momentum. The political imperative to ensure the success of ASGISA was immediately urgent, while the HRD strategy, on the other hand, was viewed as a long-term government policy that was not a pressing priority. A strategy document was finally completed and published for public comment in December 2008.

In response to the 2005 mandate, the DoE finally presented

a revised HRD strategy document (underpinned by extensive consultation and a process of public comment) to the Cabinet in March 2009. The preamble to the 2009 version of the HRD-SA states that extensive input was received from social partners, which is 'vital to the success of this strategy and is essential for the strategy to be credible'.

The Cabinet's endorsement of the strategy paved the way for the integration of the JIPSA secretariat into the Human Resource Development Support Unit (located in the DoE), which is supposed to provide the administrative support for the implementation of the strategy and, in particular, for the proposed Human Resource Development Council (HRDC), which is tasked with driving the implementation of the strategy.

With a new political guard in government and the changes announced in the aftermath of the appointment of the new Cabinet, the strategy document was referred back to the Cabinet in August 2009. According to Firoz Patel, Deputy Director-General: System Planning and Monitoring in the Department for Higher Education and Training (DHET), the decision to refer the document back to the Cabinet was based on a view that there was a need to update the strategy to take into account the mandate of the new administration and, most importantly, because of the restructuring of the government (interview, October 2009). The notable changes included the shifting of responsibility for skills development from the Department of Labour (DoL) to the newly established DHET. In addition, further education and training (FET) colleges moved from the DoE to DHET, ensuring that skills development and FET colleges fell under the administration of the same department.

A central tenet of the training reform strategy, the National Training Strategy Initiative, which was drafted during the transition period and which influenced post-1994 legislation, was that some form of integration should exist between education and training. A key assumption was that education and training would fall under the same government department so as to ensure a unified approach. In the post-1994 period, this did not materialise, and the lack of alignment and synergy between the two departments might have negatively contributed to problems that emerged around the delivery of skills.

In the new Zuma government, other changes with the potential to impact on the HRD strategy were the establishment of the Department for Economic Development and the two ministries in the Presidency relating to planning, and monitoring and evaluation.

It is understood that during Cabinet discussions in August 2009, the predominant view was that the HRD-SA needed

to be rewritten, as it lacked strategic input and, hence, was merely a set of targets. A press release issued by the government after the Cabinet meeting on 26 August 2009 stated:

The meeting decided that further work needs to be done to achieve greater alignment between the strategy and the electoral mandate; to take the current economic conditions into account; to include a stronger vision for the Sector Education and Training Authorities (SETAS) as well as the location of the FET Colleges; and the need to reflect on the unintended consequences of the merger of some of the Universities and other institutions of higher learning, particularly the Medical University of South Africa (MEDUNSA).

During a post-Cabinet briefing on 27 August 2009, a journalist requested clarification on what was meant by a stronger vision of SETAS and the location of FET colleges. In a transcript of the post-Cabinet briefing drafted by the Parliamentary Monitoring Group, government spokesman Themba Maseko was quoted as saying:

It's more which ministry they may be accountable to. A stronger vision for SETAS – this is essentially about spending a bit of time thinking about the role and function of the SETAS but more importantly what needs to be done to strengthen the SETAS so that they can begin to have an even greater impact on the skills shortages in this country.

## AIMS AND OBJECTIVES OF THE HRD-SA

The HRD-SA has been described by the media (in its very limited coverage) as a strategy 'to ensure the coordination and integration of the provision of scarce and critical skills in the country' (*Engineering News* 3.12.08). The official DoL web site states that the purpose of the strategy is to provide a 'plan to ensure that people are equipped to participate fully in society, to be able to find or create work, and to benefit fairly from it' (see [www.labour.gov.za](http://www.labour.gov.za)).

In Patel's view a country's most important asset is its human resources; thus, he argues that HRD-SA 'is a strategy not only about improving human resources in government, but across society. Hence its title HRD-SA – a strategy for the whole country' (interview, October 2009).

The HRD-SA document states that it is intended to 'implement a key set of strategic priorities that aim to address the most pressing imperatives for HRD'. When it was

published for public comment on 3 December 2008, the South African Government Information Services highlighted in a press release published on their web site ([www.info.gov.za](http://www.info.gov.za)) that the primary purpose of the strategy document was a 'call to action' to 'mobilise multi-stakeholder participation, and to encourage individuals and organisations to take on the challenge of improving the human resources stock of our nation'. The document acknowledged that such a task was wide-ranging and could prove difficult to implement, as it would require co-ordination in and between all line departments and at all three tiers of government, as well as with non-governmental organisations (NGOs) and a multitude of private enterprises. At the same time, the strategy document pointed out that 'almost the entire population is the target of HRD, and the outcomes of the strategy will shape the conditions we create for future generations'.

**The primary purpose of the strategy document was a 'call to action' to 'mobilise multi-stakeholder participation, and to encourage individuals and organisations to take on the challenge of improving the human resources stock of our nation'.**

While the document claims that the strategy is intended to be a 'call to action' and to impact on the entire population, there is little or no sign of attempts to popularise its contents. This concern was highlighted by various stakeholders in an internal departmental document: 'We are in fact surprised that apart from the notice in the (Government) Gazette and a mention on the website of the Skills Portal, we are not aware of any other public exposure given to this very critical document'.

The strategy document is described as an update of the 2001 strategy. The 2009 HRD-SA acknowledges that while significant progress was made in achieving most of the 2001 targets, 'there are clear lessons from this experience that indicate what needs to be done better to move forward more effectively'. Little monitoring and evaluation was undertaken under the auspices of the 2001 strategy, and the same was true in terms of co-ordinating efforts to collect and use data for planning in education and training. In addition, no mechanisms were in place for integrated planning, co-ordination and reporting on the strategy or

for identifying and addressing short-term demands for the supply of priority skills.

The 2009 strategy document went on to say that aside from these shortcomings, the 2001 strategy did not cater sufficiently for the role of social partners.

In view of the 'experience gained from the implementation of the 2001 HRD Strategy for South Africa', coupled with an analysis of the priorities that have emerged in the intervening years, the new HRD strategy was formulated to replace its predecessor, to address its shortcomings and to ensure the adequate development of human resources.

### KEY ELEMENTS OF THE HRD-SA

The HRD-SA seeks to address the full ambit of HRD, covering the whole skills chain from early childhood development (ECD) to higher education and training, vocational and technical training and continuing adult education. The strategy is divided into two parts: the first lists activities that are required in terms of the management of the strategy, and the second focuses on priorities and outcomes. The strategy claims to be equally focused on medium- and long-term perspectives, taking into account the need to be able to respond.

As a whole, the document adopts a long-term (20-year) approach, with interim five-year, medium-term strategic frameworks. The 20-year approach focuses on 15 priority areas, which include the eradication of adult illiteracy, ensuring universal access to quality ECD, ensuring that all new entrants into the labour market have access to employment-focused education and training opportunities, and ensuring that education and training outcomes are equitable in terms of race, gender, disability and geographic location. The majority of these priorities fall under the responsibility of the Department of Basic Education and the DHET.

The five-year strategic framework lists eight commitment areas and 24 strategic priorities. The core commitments range from increasing the number of appropriately skilled people to meet the demands of the country's economic and social development priorities, to ensuring that young people have access to education and training to enhance their opportunities and increase their chances of success in further vocational training and of obtaining sustainable employment, to improving universal access to quality basic education and schooling (up to Grade 12), and pursuing post-school vocational education and training or employment.

The strategy document lists the type of priorities, outputs and outcomes that should be pursued, but it does not stipulate actual targets. According to Patel, these would become the subject of consultative processes involving all

stakeholders, and an implementation plan would emerge out of this process. He notes that the strategy document in its current form, seeks to list roles and responsibilities to ensure that 'things do not fall through the cracks' (interview, October 2009).

In the version approved by the Cabinet in March 2009, the management, leadership and co-ordination of the strategy would be based on two key elements: firstly, a tripartite model for co-ordination and consultation and, secondly, utilising the existing institutional mechanisms established within the government to ensure integrated planning and co-ordination.

Given the strategy's emphasis on stakeholder participation, it was decided that the HRDC should serve as its primary implementation mechanism. The HRDC would act as an advisory body, with roles and responsibilities similar to those of JIPSA's Joint Task Team (JTT). As with the JTT, the HRDC will meet on a quarterly basis.

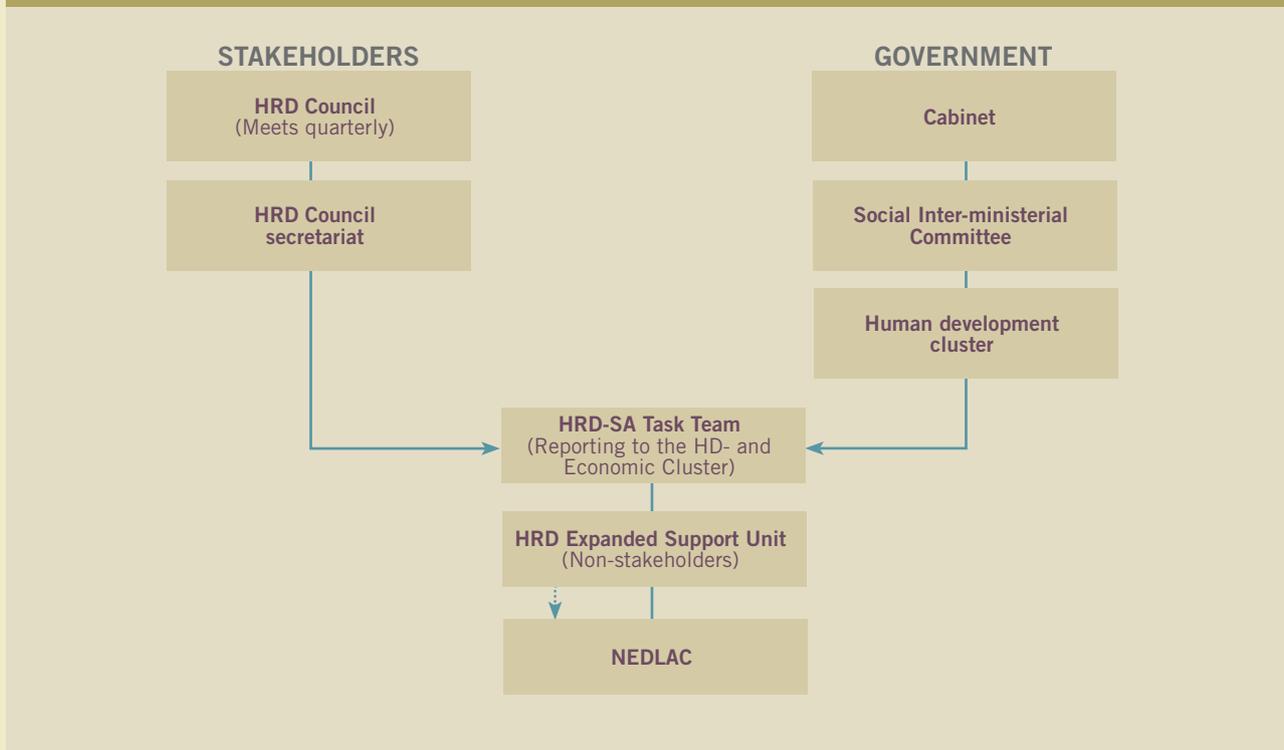
The HRDC will have representation from all major stakeholders, including the government, community, labour, business and the higher- and further-education sectors. The strategy document, furthermore, proposes that the Council should be constituted under the chairpersonship of the Presidency and fashioned largely on the successful elements of the JIPSA model.

Much speculation had surrounded the location and management of the HRD-SA. This was put to rest during Deputy President Kgalema Motlanthe's budget vote speech in Parliament on 24 June 2009, in which he indicated that it would be managed by the DHET, and that he would appoint the stakeholder-based HRDC, which will be responsible for sector mobilisation and advice on scarce and priority skills, as set out in the HRD-SA priorities.

As far as the HRDC is concerned, Motlanthe confirmed that the Presidency would provide leadership and that he, as Deputy President, would chair the Council as well as appoint the representatives to the Council. It is anticipated that by the time this paper is published, Motlanthe will have approved and announced the Council's composition. In principle, it has been agreed that it will include representation from nine ministries – Education (Basic Education and DHET), Labour, Trade and Industry, Science and Technology, Public Enterprises, Public Service and Administration, Home Affairs, National Treasury and Provincial and Local Government (the original proposal had excluded representation from the National Treasury and Local Government, but included Communications).

In addition to the government, the Council will include representation from other stakeholder constituencies,

Figure 3.3.1: The HRD-SA structure



Note: This figure represents the proposed configuration of the HRD-SA within its current draft form and should not be interpreted as a final version.

including: the private sector and state-owned enterprises; senior leaders from organised business and organised labour; Higher Education South Africa; the SA College Principals’ Organisation; and a number of subject-specific experts. Structures, such as the National Economic Development and Labour Council (NEDLAC) will be kept informed and involved in discussions. To date, however, no detail has been provided in regard to the modalities of its engagement, nor, for that matter, has the position of the National Skills Authority been clarified.

In terms of more recent discussions, it has been agreed in principle that the HRDC will have powers to co-opt members and to establish committees and working groups as required. Other functions include: leading and overseeing the pursuit of commitments, strategic objectives and targets (yet to be identified); leading the overall implementation of the revised HRD-SA in collaboration with the government, business, organised labour and the community; determining the priority skills on which the strategy will focus; receiving reports and monitoring progress; taking such steps or

making such interventions as it considers necessary to ensure the attainment of HRD-SA’s objectives; mobilising senior leadership in business, the government, organised labour, the community and the education and training and science and technology institutions to address national HRD priorities in a more co-ordinated and targeted way; and reporting, through the Deputy President, to the Cabinet on progress made towards achieving the agreed objectives as identified by the stakeholders.

The primary co-ordinating institution for the government would be a sub-committee of the Cabinet’s Investment and Employment Cluster – where the government currently discusses skills. The Directors-General in the Economic Cluster will report to the sub-committee. The strategy document states that there will be:

an amalgam of carefully specified indicators and targets, and the task of the sub-committee will be to monitor the achievement of these targets. Quarterly reports will be prepared to guide implementation and suggest remedial

action, where required. An annual report will serve as a key accountability mechanism for the strategy. A major review, based on systematic evaluation studies and impact assessments, will be conducted every five years.

The support unit for the sub-committee (the HRD Unit) located now in the DHET is intended to have the requisite capacity to implement the day-to-day activities arising from the workings of the sub-committee and the HRDC. Since April 2009, the JIPSA secretariat has been incorporated into this unit. According to the strategy document, the:

secretariat will be a replica of the JIPSA secretariat that is chaired by senior officials of the Presidency, Department of Labour and Department of Education and two members elected by the HRD Council.

Based on the JIPSA experience, it is anticipated that the HRDC (like the JTT) will discuss issues relating to the broad spectrum of human resources development. The HRD Unit (like the JIPSA secretariat) will filter, analyse and conduct research, if necessary, around requests emanating from the Council and, thereafter, make recommendations and/or try to address blockages in the system. In practice, business might table its concern in the Council that the skills levy process needs to be improved so that it can focus on actual skills needs in terms of new entrants to the labour market. The Council would discuss the matter and request that research be conducted, which would then be fed back into the Council. If the research recommendations suggested that the government had to change policy, then the relevant Cabinet cluster would discuss this and take the process forward. Occasions may arise, however, where it is not the government, but business or labour that needs act, and for such instances relevant processes will be put in place to ensure compliance.

The strategy also makes provision for provincial HRD sub-committees, and the creation of mechanisms for bilateral ministerial meetings that would ensure greater co-ordination and integration, for example between the labour, education, trade and industry and science and technology departments.

## LESSONS FROM THE JIPSA EXPERIENCE

As indicated above, within months of the Cabinet mandating the DoE to revise and update the 2001 HRD strategy, ASGISA was launched and, in its wake, JIPSA. Makano Morojele, head of the JIPSA Secretariat, believes that many of JIPSA's accomplishments can be attributed to the political clout that

it enjoyed (interview, October 2009). According to Morojele, JIPSA was driven by the then Deputy President Mlambo-Ngcuka, who 'championed the idea and provided visible and purposeful leadership'.

As a non-statutory body, JIPSA did not have authority over the government and the various clusters, but its strong leadership, in Morojele's opinion, did provide the opportunity for persuasion and the ability for it to be integrated in government planning. In effect, it cut through the red tape of government 'to support the system in fixing itself'.

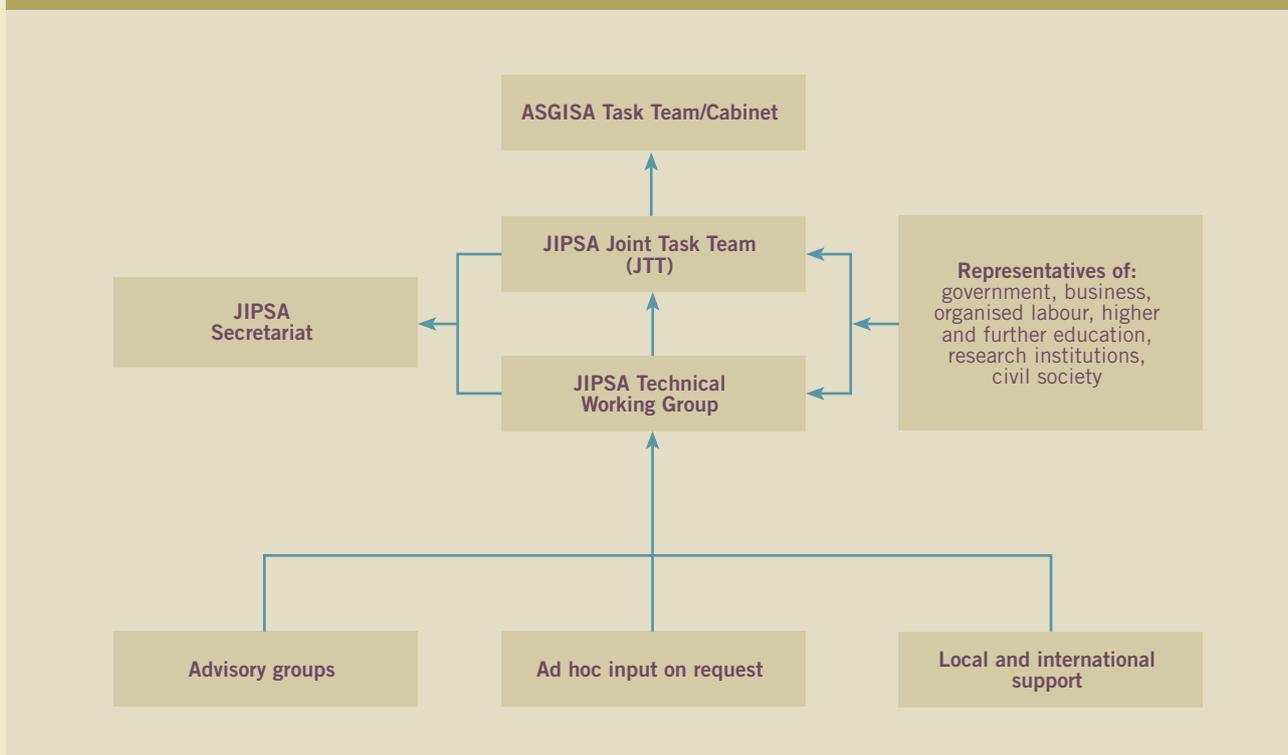
According to the National Business Initiative,<sup>1</sup> the JIPSA model was based on four principles: (a) it was constructed as a joint initiative of the social partners; (b) its focus was on a limited number of priority skills; (c) it was based on the voluntary 'self-binding' of autonomous 'project owners' (the line departments and individuals in organised business and labour); and (d) its approach was practical and about problem-solving.

Morojele explains that the JIPSA approach was not to fragment the system but to bring together the key players – the producers and consumers of skills development and education. In an internal evaluation report, 'High-level Reflections on JIPSA's First 18 Months', it is observed that the JIPSA model represented a novel approach to the search for solutions to the stranglehold that education and skills deficiencies have placed on growth and development. The report goes so far as to suggest that it 'has laid the foundations for bringing about a paradigm shift in the way that human capital development is regarded in the country'. Key to this, it contends, was a model focused on a limited number of priority skills, which drew upon the joint energies of those that were most affected by their shortage.

The JIPSA structure (see Figure 3.3.2) was based on the establishment of the JTT, which met on a quarterly basis and reported to the ASGISA Task Team and the Cabinet. In practice, the Deputy President acted as the direct link between the Cabinet and the JTT. The latter was supported by a technical working group, which was made up of senior representatives from business, organised labour and the government, as well as representatives from civil society and academic and research institutions. These structures were supported by the JIPSA Secretariat, experts and advisory groups.

It was configured in this way because the strategy regarded the acquisition of skills not merely as a quest to achieve numerical targets, but rather as a systems challenge, which also involved the creation of more opportunities for training, as well as retraining to higher standards. Viewing the system as a whole and addressing the key blockages and inefficiencies

Figure 3.3.2: The JIPSA structure



that stood in the way of the acquisition of the skills required for sustainable growth was critical to this strategy.

In summary, JIPSA's successes have been attributed to the following:

- *the direct link that the Deputy President provided between the JTT and the Cabinet, which allowed for issues to be dealt with timeously (as a result, those involved in the JIPSA structures felt that they were heard and were making an impact);*
- *the involvement and commitment of senior government, business and labour leaders to tackle the challenge of scarce and priority skills together (numerous reviews of JIPSA point to the importance of leadership taking ownership of the skills challenge);*
- *the JIPSA secretariat being located outside of the government, but working closely with the Presidency, which enabled JIPSA to cut through the red tape of government bureaucracy (key elements of its success were its ability to provide a strong co-ordination*

function and its ability to draw on research that informed the analysis of the problem and the choice of appropriate interventions); and

- *the enabling environment that was created through the use of its powers of persuasion and the provision of the necessary support to get things moving when it was needed (in a sense, it could be argued that its operation can be equated with that envisaged for the Planning Commission and the monitoring and evaluation functions that are now located within the Presidency).*

During its brief existence, JIPSA put skills on the national agenda and challenged the key role-players to make a contribution. This was reflected in the launch of a CEO commitment to skills development by business leaders in November 2007. It reaffirmed the role of the social partners in working together to solve some of the most critical challenges facing the country. As a result, certain successes, such as that in relation to the training of artisans, are becoming increasingly visible.

The HRD-SA strategy document stresses that lessons from the JIPSA experience have been incorporated in its most recent form. Learning from JIPSA, and in a significant departure from the 2001 strategy, the current strategy recognises the importance of stakeholder involvement and input, and this is reflected in the composition of the Council. The challenge for the Council will be how to tap into this expertise and how to extract value from stakeholders to inform conceptualisation or implementation of the strategy.

There are, however, important JIPSA insights that have not found their way into the most recent document. For those involved in the JIPSA process, one of the weaknesses of the current model is that the HRDC does not have a direct link to the Cabinet, with access only through a range of structures. Some might argue that this could impact on the ability of the Council to act in a responsive manner. This concern can be addressed, depending on how the revised document incorporates the Presidency's Planning Commission into the structure.

Of overriding concern for a number of stakeholders is the view that the HRD-SA has too many proposed priority areas. In the conception of JIPSA, the idea was that while there were myriad areas in which it could intervene, in order to effect change it could not accommodate all, and initially targeted five priority areas (ending up, however, with 13). The revision process needs to take this potential weakness into account.

While there are clear signs that the HRD-SA has sought to take on board the JIPSA experience, which includes its focus on scarce and priority skills, many unknowns remain as the document faces a further revision.

## CONCLUSION

In view of the current status of the HRD-SA, it is difficult to highlight challenges around implementation, as many uncertainties remain. Having said this, there are several questions and concerns that could be explored during the next round of amendments:

- Social partners took skills development seriously because JIPSA was seen as a presidential project that was driven from that level. Prior to this, it was not prominent on the NEDLAC agenda or, for that matter, a serious issue in collective bargaining. In effect, JIPSA made HRD a national priority and a serious social-partner issue. Will the HRDC, as it is currently constructed and situated (led by the Deputy President, but located in and managed by the DHET), bring the

level of support and status (that was central to the JIPSA experience) to ensure HRD remains a national priority?

- Concerns exist beyond the location of the HRDC. Leaving the HRD strategy as a whole in the DHET, while most other macro, high-level strategic co-ordination issues are likely to be considered within the Planning Commission within the Presidency, it could be asked whether the strategy would not be sidelined again. Moreover, while the Presidency has indicated its commitment to ensure accountability, the question remains how this will happen in practice. Will other government departments take it seriously when the strategy is located in the DHET?
- Linked to this issue is the question whether the currently proposed structure (based on the previous government's cluster system) allows for timeous response and quick decision-making. It has been argued that issues around responsiveness are linked to attracting the 'right' calibre of people to serve on the Council.
- The JIPSA experience reflects the importance of the location of structures. In view of the changes in the composition of government departments, it remains unclear how the Council will connect to new structures, such as the Planning Commission and the monitoring and evaluation ministries within the Presidency.
- A key weakness of the 2001 strategy was the lack of proper co-ordination, management and monitoring. Does the current structure sufficiently address the weaknesses that existed? Economist Pundy Pillay suggests that it could well be argued that the idea of the Council might be overtaken by the establishment of new institutional mechanisms in the Presidency (interview, October 2009).
- Linked to the question of co-ordination and integration within the government is the concern that HRD is not just a supply-side issue, and that the success of any HRD intervention has to be linked to questions of economic policy such as an industrial policy (in other words, demand-side issues). This issue was raised by stakeholders, who argued in an internal document prepared for the DoE that while the HRD-SA refers to the importance of economic policy and growth, 'it is evident that the implications of economic policy in general and of the industrial policy in particular need to be fleshed out in a bit more depth given their importance for HRD'. Of further concern is the fact

that the Department of Trade and Industry has failed to make an input or comment on the proposed strategy.

- Stakeholders are concerned, too, that the HRD-SA currently has too many indicators and priority areas. Those involved in monitoring and evaluation have argued that the strategy currently contains a 'huge and unmanageable shopping list' of indicators. An internal document prepared on behalf of the DoE, incorporating stakeholder responses, states: 'All of the commitments and strategic priorities are important, especially given the human development challenges South Africa faces. However, given the critique of HRDS 2001, a more focused approach may be achieved by ranking the key commitments and strategic priorities according to relative weight or a ranking system.' Based on the JIPSA experience, it is proposed that there be a tighter focus and identification of the issues that need to be tackled immediately.
- Linked to the issue of priorities is the extent to which the strategy takes on board and continues the work initiated by JIPSA. While, in theory, the JIPSA Secretariat has been integrated into the HRD Unit, it is questionable whether there has been sufficient handover. More pertinently, does the strategy have sufficient connection points with the work started by JIPSA?
- While the HRD-SA talks about developing the human resources of the whole country and, in that way, moves beyond the narrow focus of JIPSA, little attention is given to initiatives outside of the government.

The HRD-SA is a rather ambitious attempt to address the full extent of HRD (including the whole skills pipeline) and, over and above that, to ensure co-ordination across the three spheres of government. There is nothing wrong with having an ambitious strategy, but stakeholders should not underestimate the challenges of implementation (as the strategy document warns). Therefore, it must be ensured that the structures and processes put in place (at all levels) to drive implementation are appropriate, have the capacity to deliver, and retain HRD as a priority on the national agenda. Of immediate concern is the decision to refer the HRD-SA back for revision, which has implications for the work initiated by JIPSA. More importantly, this move poses serious challenges as to whether the momentum and sense of urgency in dealing with skills issues will be maintained pending the finalisation and establishment of new structures and processes.

The danger of allowing this to happen could be highly problematic, as the country still faces a scarcity of certain skills despite the downturn in the economy. This shortage will be exacerbated when the economy begins to recover. Policy-makers and stakeholders should heed the words of Toh Wee Kiang, executive director for human capital at the Singapore Economic Development Board: 'The war for talent is at the heart of economic growth, and education plays an important part in creating and sustaining talent' (*New York Times* 19.09.09).

## NOTES

1. NBI newsletter: HRD-SA/HRD-SA, published on 1 August 2009.



# Chapter four

## Poverty and inequality

“South Africa’s socio-economic dynamics still contain considerable inequality-generating momentum, despite a post-apartheid policy milieu that has explicitly taken on the task of addressing this legacy.”

<b>Scorecards</b>	Income poverty and inequality	95
	Access poverty	96
<b>Research</b>	The persistence of high income inequality in South Africa: Some recent evidence	98
	<i>Ingird Woolard, Murray Leibbrandt and Hayley McEwen</i>	
<b>Review</b>	Poverty in South Africa: Government attempts to include the excluded in designing policies and programmes aimed at reducing poverty	108
	<i>Vusi Gumede</i>	
<b>Analysis</b>	Rural livelihoods and market integration: Agrarian policy in South Africa	116
	<i>Andries du Toit</i>	

# overview

In the opening contribution to this chapter, **Ingrid Woolard, Murray Leibbrandt and Hayley McEwen** present their latest research findings pertaining to inequality patterns. Their study, based on comparative data from the 1993 Project for Statistics of Living Standards and Development (PSLSD) and the 2008 National Income Dynamics Study (NIDS) confirms that high aggregate inequality between these two measurement points has not declined over the past 15 years, and that there are still entrenched factors in our economy that provide ‘considerable inequality-generating momentum’. Both inter-group and intra-group inequality have grown during this period. While this does not suggest a trend of gradual decline of the country’s ‘racial footprint’, its demographic implication, particularly as it relates to the black African component of the population, is significant. Exponential growth of inequality levels within this section of the population, combined with its large numerical majority, will ensure that the material attributes of this group exert growing influence over aggregate inequality trends.

In the next article, **Vusi Gumede** documents the government’s search for a comprehensive South African anti-poverty strategy. He articulates the need for an approach that spans the broad range of interactions between the different structural and temporal variables that impact on poverty levels, and outlines the conceptual and practical considerations that have to be taken into account in its development. In its current form, the strategy is based on nine key pillars that have been informed by broad consultations across the policy stakeholder spectrum. According to Gumede, the recommendations and insights gained from these interactions have not

been taken lightly, and the process has sought to identify specific opportunities for these stakeholders and the state. For its part, it is important for the state to consider how it would scale up its capacity for implementation, and ensure that this is done in unison. Gumede concludes that state cohesion will be the decisive factor in the successful implementation of the strategy.

In the final article in this chapter, **Andries du Toit** states that, by and large, land reform policy has failed. It has not been able to meet its targets for distribution and, as a result, most black farmers remain poor and structurally marginalised. Du Toit locates his discussion within the reality of this structural marginalisation, and explores the ways in which it can be challenged by means of agriculture and agrarian policy. He contends that much of the failure can be attributed to the untested assumptions that have informed the post-apartheid state’s agrarian vision. By means of examples, he highlights how this vision was premised on unrealistic and mistaken beliefs about the likely consequences and impacts of ‘inclusion’ and ‘integration’ into commercial markets. He concludes that the situation will be perpetuated if policy continues to be informed disproportionately by narrow ideological commitments to commercialisation. In this regard, he points to the recent return of support for the idea that subsistence food production should be valued and supported in terms of its contribution to social protection. In conclusion, Du Toit proposes that much greater emphasis should be placed on an appreciation of the downstream links that connect small farmers to the markets, as well as on the power relations involved in these interactions.

# Income poverty and inequality scorecard

Transformation goal		Reduced income poverty and inequality				
Desired outcome	Indicator	Status 1990–1994	Status 2007	Status 2008	Status 2009	Positive development
Reducing income poverty	Percentage of the population below the poverty line	50.3%	45.5%*	43.1%	41.6%	↑
Creating wealth	Percentage of the population above an 'affluence' line	9.2%	9.6%	10.5%	10.4%	↓
Reducing inequality	African per capita income as a percentage of white per capita income	10.2%	13.0%	12.9%	15.4%**	↑
	Earnings of female formal sector workers as a percentage of those of males*	74.8%	86.1% (2006)	83.7% (2007)	80.9% (2008)	↓
	Gini coefficient for overall SA population	0.67	0.68	0.68	0.66	↑
	Gini coefficient for black population	0.55	0.62	0.59	0.59	↔

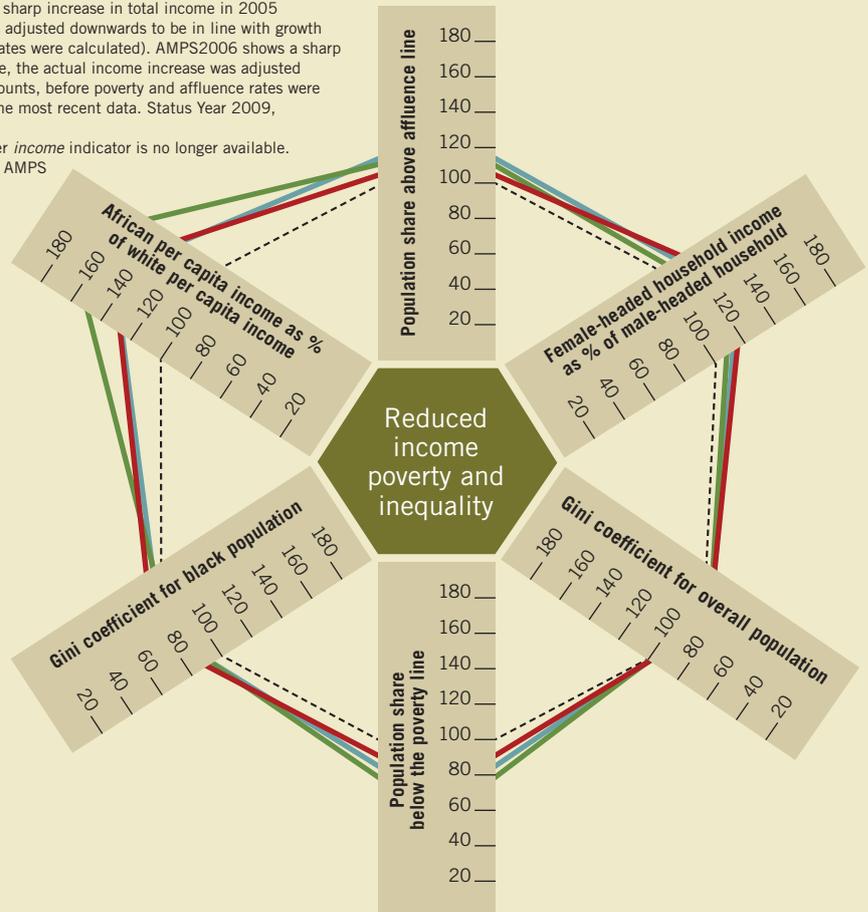
Source: Calculations by S van der Berg and D Yu using All Media Products Survey (AMPS) data, except for earnings of females, which are derived from the Labour Force Survey.

Notes: The poverty line is set at R3 000 per person per year in 2000 rands. The line of 'affluence' is set at R25 000 per person per year in 2000 rands. AMPS2005 shows a sharp increase in total income in 2005 (to derive a conservative estimate, the actual income increase was adjusted downwards to be in line with growth according to the national accounts, before poverty and affluence rates were calculated). AMPS2006 shows a sharp increase in total income in 2006 (to derive a conservative estimate, the actual income increase was adjusted downwards to be in line with growth according to the national accounts, before poverty and affluence rates were calculated). Note that 'Status Year' reports on the availability of the most recent data. Status Year 2009, for example, reports on data that has been gathered in 2007.

\* This indicator has been incorporated, as the AMPS-based gender income indicator is no longer available.

\*\* This large shift may be indicative of comparability problems in AMPS income data between 2006 and 2007.

The Income Poverty and Inequality Scorecard and Star provide a snapshot impression of changes in key indicators of poverty and inequality.



**INTERPRETATION GUIDE**

Desired direction of change

----- Score early 1990s (=100)

----- Status 2007

----- Status 2008

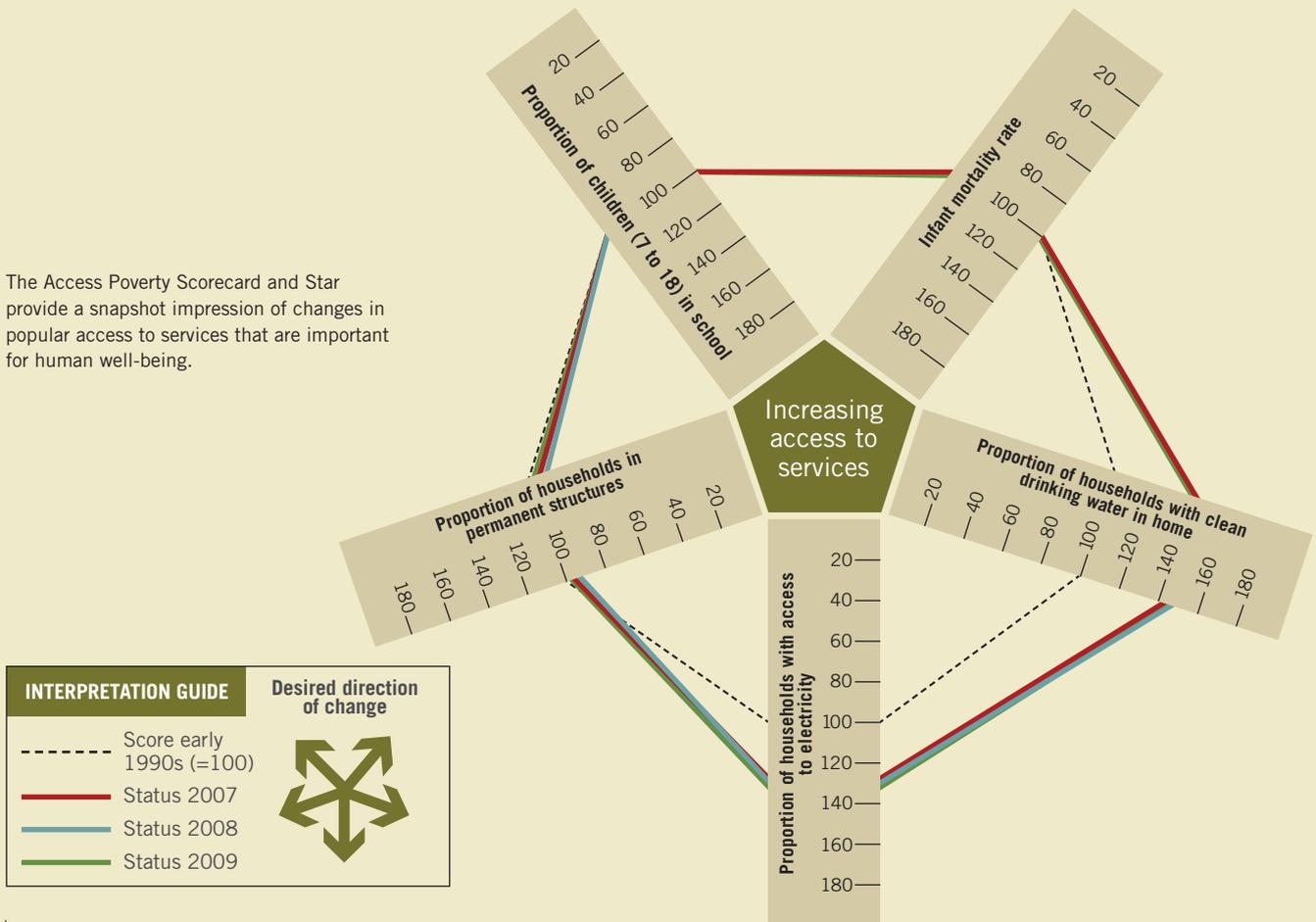
----- Status 2009

# Access poverty scorecard

Transformation goal: Reduced poverty through better access to services						
Desired outcome	Indicator	Status 1995	Status 2007	Status 2008	Status 2009	Positive development
Reduced access poverty	Percentage of households living in a permanent structure <sup>1</sup>	77.6%	74.2% (2006)	73.9% (2007)	75.8% (2008)	↑
	Percentage of households with access to electricity <sup>1</sup>	62.9%	80.2% (2006)	81.5% (2007)	82.7% (2008)	↑
	Percentage of households with access to clean drinking water in the home <sup>1</sup>	48.9%	69.9% (2006)	71.5% (2007)	70.9% (2008)	↓
Reduced education poverty	Percentage of children 7 to 18 in school <sup>1</sup>	95.3%	94.1% (2006)	94.7% (2007)	94.4% (2008)	↓
Reduced health poverty	Infant mortality rate <sup>2,3</sup>	45 (1990)	45.2 (2006)	n.a.	45.7 (2008)	↓
	Estimated HIV prevalence rate for population <sup>3</sup>		11.1%	11.0%	10.6%	↑

1. Sources: Stats SA, October Household Survey 1995; General Household Survey 2006, 2007, 2008  
 2. Sources: 1990 from UNDP Human Development Index (1990); 2005 & 2007 from Stats SA, Statistical Release P0302 Mid-year Estimates <www.statssa.gov.za>  
 3. Sources: Stats SA, Statistical Release P0302 Mid-year Estimates <www.statssa.gov.za>

The Access Poverty Scorecard and Star provide a snapshot impression of changes in popular access to services that are important for human well-being.





047

048

# research

## THE PERSISTENCE OF HIGH INCOME INEQUALITY IN SOUTH AFRICA: SOME RECENT EVIDENCE

Ingrid Woolard, Murray Leibbrandt and Haylry McEwen

### INTRODUCTION

It is well known that South Africa's inequality levels are among the highest in the world. In this article, we consider some recent evidence, which adds to the body of work suggesting that aggregate inequality has not changed significantly in post-apartheid South Africa, but that the racial picture of inequality is slowly changing (Leibbrandt, Woolard, Finn & Argent forthcoming). The emergence of the black middle class has increased within-race inequality, which has not been offset completely by the decrease in between-race inequality.

We find that the rapid expansion of social assistance grants over the last 15 years has made a significant contribution to reducing poverty but has done little to reduce inequality. This emphasises the importance of distinguishing between poverty-reduction and inequality-reduction policies. While these policies are often mutually reinforcing, the impact on both outcomes may be of different magnitudes. Thus, the fact that social grants have not reduced inequality should not detract from the massively important role that they have played in providing income support to the poor. There is also an argument to be made that the success of the grants in helping to break the intergenerational transmission of poverty (through enhanced child nutrition, health and education) will have a long-run effect on income inequality that will only be realised in decades to come. Our analysis of the role of the labour market leads us to the conclusion that a significant reduction in the level of inequality can be achieved only through employment growth or reduced wage inequality. Both of these have proved to be very difficult to effect over the post-apartheid period.

### POVERTY TRENDS IN SOUTH AFRICA, 1993–2008

In this article, we use data from two largely comparable household surveys undertaken in 1993 and 2008. The 1993 data come from the Southern Africa Labour and Development Research Unit (SALDRU) Project for Statistics of Living

Standards and Development (PSLSD) of that year. The 2008 data come from the base wave of the National Income Dynamics Study (NIDS) conducted by SALDRU on behalf of the South African Presidency.<sup>1</sup> We supplement this with a data point from the somewhat less comparable 2000 Income and Expenditure Survey (IES) conducted by Stats SA.

**A significant reduction in the level of inequality can be achieved only through employment growth or reduced wage inequality.**

While the focus of the article is on inequality, this needs to be viewed alongside the dynamic picture of poverty in contemporary South Africa. Table 4.1.1 shows the simplest measure of poverty, the headcount index, at two different poverty lines. The headcount index is simply the percentage of the population that falls below a specified poverty line. The two poverty lines used here are those first employed by Hoogeveen and Özler (2006) but now in common use in South African poverty analysis. Table 4.1.1 shows a gradual reduction in the poverty rate (using both poverty lines) in post-apartheid South Africa. Over the period, however, the population grew faster than poverty fell; therefore, the number of poor people grew in absolute terms. Using the lower poverty line, there were approximately 22 million poor people in South Africa in 1993, compared with 26 million in 2008.

Poverty rates differ dramatically by race and gender. Table 4.1.2 shows that Africans are much more likely to be poor than any other race group, and that African females are significantly more likely to be poor than African males. The table suggests that poverty rates among coloured males

Table 4.1.1: Percentage of population classified as poor at two poverty lines

	Upper poverty line	Lower poverty line
1993	72%	56%
2000	71%	54%
2008	70%	54%

Note: The upper poverty line is at R949 per capita per month, while the lower poverty line stands at R515 per capita per month, both in constant 2008 rands. Sources: SALDRU (1993) Project for Statistics on Living Standards and Development; Stats SA (2000) Income and Expenditure Survey; National Income Dynamics Study (2008) (conducted by SALDRU for the Presidency)

Table 4.1.2: Poverty headcount index at lower poverty line

	1993	2000	2008
<i>African female</i>	72%	66%	68%
<i>African male</i>	66%	61%	60%
<i>Coloured female</i>	32%	32%	36%
<i>Coloured male</i>	29%	30%	35%
<i>Indian/Asian female</i>	12%	11%	-
<i>Indian/Asian male</i>	12%	9%	-
<i>White female</i>	5%	6%	4%
<i>White male</i>	6%	8%	3%

Note: The sample size for Indians/Asians in the 2008 NIDS data is too small to compute reliable poverty estimates by gender. The poverty lines are the same as for Table 4.1.1. Sources: SALDRU (1993) Project for Statistics on Living Standards and Development; Stats SA (2000) Income and Expenditure Survey; National Income Dynamics Study (2008) (conducted by SALDRU for the Presidency)

and females have risen in recent years, while declining for all other groups.

### INEQUALITY TRENDS IN SOUTH AFRICA, 1993–2008

Figure 4.1.1 presents the shares of total income accruing to each decile for the three years under discussion. Each decile represents 10 per cent of the population ranked according to income, with the first decile representing the poorest 10 per cent and the tenth decile representing the richest 10 per cent of the population. This is useful in showing which parts of the distribution have benefited or lost income share over time. We see that income has become concentrated increasingly in the top decile, with this group accruing 54 per cent of total income in 1993 and rising to 58 per cent in 2008. Average household per capita income for those in the richest decile was 26 times that of those in the poorest decile in 2008. The poorest 40 per cent of households (i.e. the first four deciles) accrued a meagre 5 per cent of total national income in each of the three years.

Inequality by race group increased across the time period, with the Gini coefficient being particularly high for Africans (see Table 4.1.3). The Gini coefficient measures the degree of inequality present in society, on a scale of 0, representing

Figure 4.1.1: Income shares by decile, 1993, 2000 and 2008



Sources: SALDRU (1993) Project for Statistics on Living Standards and Development; Stats SA (2000) Income and Expenditure Survey; National Income Dynamics Study (2008) (conducted by SALDRU for the Presidency)

Table 4.1.3: Gini coefficients for per capita income by race and rural/urban

	1993	2000	2008
<i>African</i>	0.54	0.60	0.62
<i>Coloured</i>	0.44	0.53	0.54
<i>Asian/Indian</i>	0.47	0.51	-
<i>White</i>	0.43	0.47	0.50
<i>Rural</i>	0.58	0.62	0.56
<i>Urban</i>	0.61	0.64	0.67
<i>Overall</i>	0.66	0.68	0.70

Note: The small size of the Asian/Indian sample in the 2008 NIDS data makes it impossible to calculate an accurate Gini coefficient for this group. Sources: SALDRU (1993) Project for Statistics on Living Standards and Development; Stats SA (2000) Income and Expenditure Survey; National Income Dynamics Study (2008) (conducted by SALDRU for the Presidency)

perfect equality (i.e. everyone has an equal income), to 1, representing perfect inequality (i.e. one person accrues all the income). Some would describe the coefficient as a measure of the extent to which a socially just distribution of income occurs within a society. In South Africa, this measurement holds particular relevance, due to the role that apartheid

played in skewing the distribution of the country's income. South Africa's Gini coefficient has been increasing steadily since 1993, and the figure of 0.70 for 2008 is very high by international standards. One has to be cautious with international comparisons, as it is hard to ensure that data are comparable across countries. The World Development Indicators derived by the World Bank offer a cross-country series that is carefully put together for this purpose. The figures in the 2009 report (World Bank 2009) indicate South Africa is the eighth most unequal country out of the 140 countries for which data were available. It has overtaken Brazil, which now lies in tenth position.

There is also stark inequality difference by spatial area, with inequality in urban and rural areas being measured at 0.56 and 0.67 respectively in 2008. Rural inequality decreased between 2000 and 2008. This is probably a result of increased migration to urban areas.

### A RACIAL ANALYSIS OF INEQUALITY

Table 4.1.4 provides a broad breakdown of income and expenditure measures for each of the four race groups for 2008, highlighting significant differences between the population and income shares. While Africans accounted for 79 per cent of the population in 2008, they captured only 44 per cent of income and 41 per cent of total expenditure.

Table 4.1.5 shows the position of the different race groups in the income distribution. Africans are spread relatively evenly across the lower deciles (which helps explain high within-group African inequality), while the other racial groups are concentrated around the upper deciles. Almost 60 per cent of Asians/Indians are in the top two deciles and

South Africa is the eighth most unequal country out of the 140 countries for which data were available.

the corresponding share for the white population stands at over 80 per cent.

Given the findings discussed so far, our *a priori* expectation should be that measured African inequality would be higher than white and coloured inequality for any method of measurement. Lorenz curve analysis offers a visual corroboration of this expectation by graphing curves for each racial group that represent their relative degree of inequality. The closer the curve is to the 45° line of perfect equality, the more equal the income distribution within that group. Figure 4.1.2 shows the Lorenz curves for all the racial groups, and it confirms that income is more evenly distributed among whites than among coloureds and Africans. Due to the fact that the Asian/Indian curve crosses the African and coloured curves, we cannot infer anything about overall Asian/Indian inequality dominance based on these curves alone.

Another popular measure of inequality is the Theil measure, a useful property of which is that it is decomposable into a share of the total measured inequality that is attributable to inequality within each of the racial groups and a share that is attributable to inequality between racial groups. Table 4.1.6 shows the Theil decomposition by race for 2008. It can be seen that 59 per cent of overall income inequality is driven by differences within races, while the remaining 41 per cent is driven by income inequality between racial groups.

Table 4.1.4: Income and expenditure shares and means by race, 2008

	Population share	Income share	Expenditure share	Per capita income (R/p.m.)	Per capita expenditure (R/p.m.)
<i>African</i>	79.3%	43.5%	41.8%	934	775
<i>Coloured</i>	8.9%	8.6%	9.9%	1 657	1 633
<i>Asian/Indian</i>	2.6%	7.6%	7.4%	5 057	4 239
<i>White</i>	9.2%	40.3%	40.9%	7 461	6 572
<i>Overall</i>	100%	100%	100%	1 705	1 479

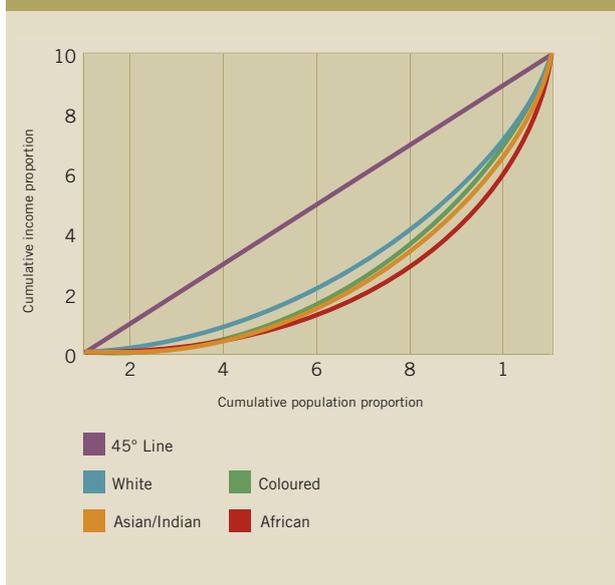
Sources: National Income Dynamics Study (2008) (conducted by SALDRU for the Presidency)

Table 4.1.5: Income decile composition of each race, 2008

Decile	African	Coloured	Asian/Indian	White
1	12.4%	2.0%	0.5%	0.7%
2	12.0%	5.7%	0.0%	0.0%
3	11.9%	4.9%	2.7%	0.5%
4	11.5%	10.1%	0.5%	0.1%
5	11.5%	7.3%	6.1%	0.2%
6	10.9%	12.4%	1.4%	2.2%
7	10.3%	11.3%	17.9%	4.1%
8	8.7%	21.6%	12.0%	9.5%
9	7.4%	17.4%	21.9%	21.6%
10	3.4%	7.3%	37.0%	61.1%
	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: National Income Dynamics Study (2008) (conducted by SALDRU for the Presidency)

Figure 4.1.2: Income Lorenz curves by race



Source: National Income Dynamics Study (2008) (conducted by SALDRU for the Presidency)

Table 4.1.6: Theil decomposition of income into between-race and within-race components

	Theil decomposition
<i>Overall</i>	0.99
<i>African</i>	0.75
<i>Coloured</i>	0.52
<i>Asian/Indian</i>	0.65
<i>White</i>	0.39
Within	0.58
	58.6%
Between	0.41
	41.4%

Source: National Income Dynamics Study (2008) (conducted by SALDRU for the Presidency)

Using a method pioneered by Elbers, Lanjouw, Mistiaen and Özler (2008), it is possible to measure the extent of between-group inequality in a way that ‘strips out’ the effect of changes in demographic shares. The key idea of their method is that total inequality is effectively a measure of between-group inequality that would be observed if every household in the population constituted a separate group. They, therefore, propose a measure that calculates the observed between-group inequality as a percentage of the maximum possible between-group inequality. Using this method, South African inequality between racial groups stood at almost 69 per cent of its maximum possible level in 1993. By 2000, this figure had fallen to about 50 per cent and by 2008 to 48 per cent. Thus, the change in the racial dynamics of inequality was most significant in the period between the democratic transition and 2000, while the changes between 2000 and 2008 were more muted.

### INCOME SOURCE INEQUALITY

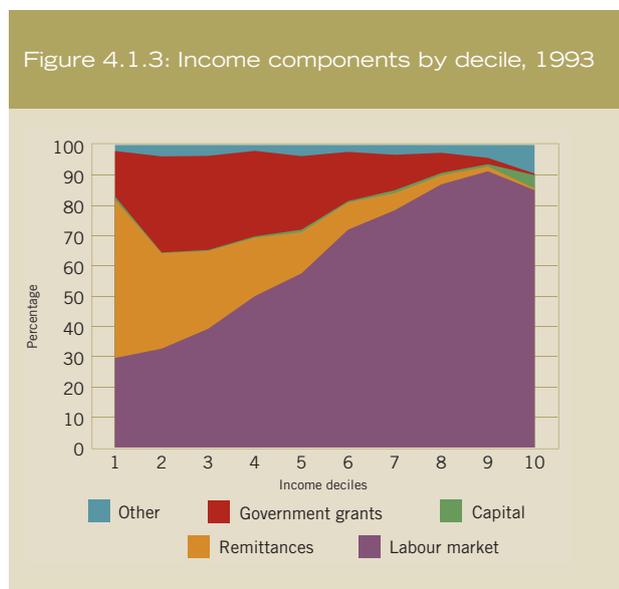
Figures 4.1.3, 4.1.4 and 4.1.5 illustrate the changing importance of the different components of income for each decile in 1993, 2000 and 2008. Earnings from the labour market make up the bulk of total income for the higher deciles, while the contribution of government grants is particularly important for poor households. It is interesting to note the growing contribution of government grants to these households – for the bottom decile the figure grows

from 15 per cent to 29 per cent to 73 per cent, and this reflects the increasing number of social assistance grants that have been rolled out over the past 15 years. Indeed, by April 2009, 13.4 million people were benefiting from social grants. Of these, 2.3 million were receiving old age pensions, 1.4 million were receiving disability grants and 9.1 million children were benefiting from child support grants.

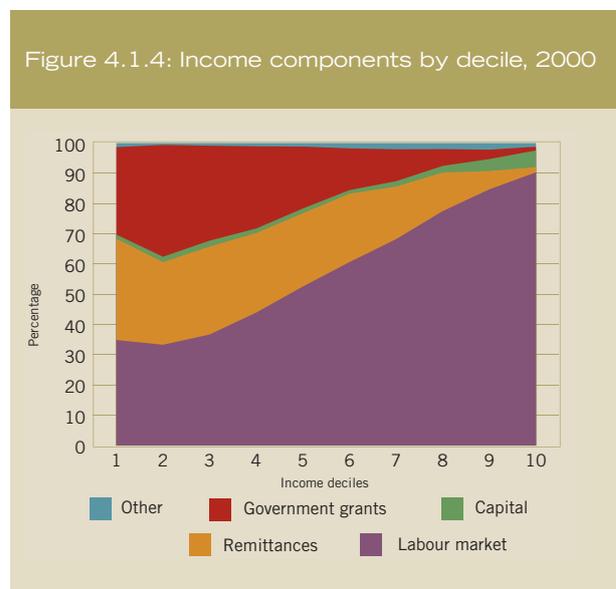
The contribution of remittances to total income has steadily decreased for the lower deciles, suggesting that there may have been a crowding out of private transfers by public transfers. Capital income (e.g. dividends and interest) is small for all except the top decile, where its contribution rose from 4 per cent in 1993 to 11 per cent in 2000.

By decomposing the contributions of the various income sources to overall inequality, Tables 4.1.7, 4.1.8 and 4.1.9 provide a more detailed analysis of the dynamics influencing inequality. Income is decomposed into four sources: remittances, wage income (including self-employment), social assistance (‘grants’) and capital income (such as dividends, interest, rental income and private pensions). Across all three years, wage income has a dominant share of income (around 70 per cent) but makes an even larger contribution to inequality (around 85 per cent). Thus, the labour market is shown to sit centre-stage as the driver of South African income inequality.

A useful extension to this decomposition, suggested by Lerman and Yitzhaki (1994), allows the contribution to inequality of wage income (or any income source) to be



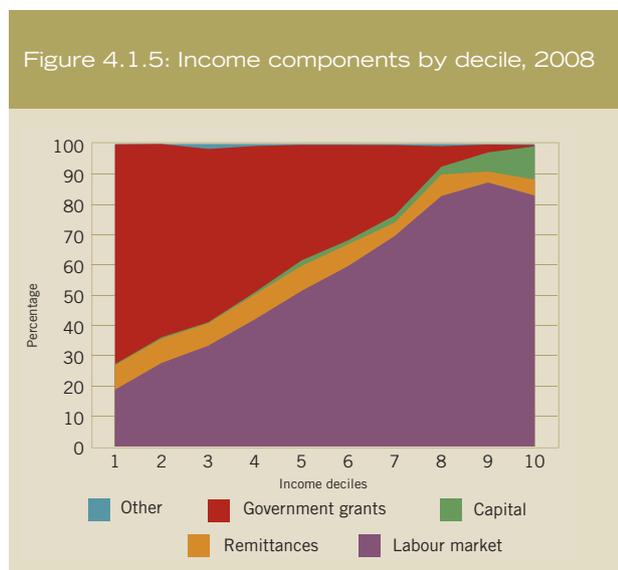
Source: SALDRU (1993) Project for Statistics on Living Standards and Development



Source: Stats SA (2000) Income and Expenditure Survey

further disaggregated into a contribution due to inequality among those earning income from that source and the proportion of households who have *no access* to a particular income source. Thus, labour market inequality is divided into two parts: the inequality amongst those who earn a labour market income, and the inequality between those with a labour market income and those without. From such exercises, it appears that at least one-third of wage inequality is attributable to the large percentage of households with zero wage income (Leibbrandt, Woolard & Woolard 2000). Thus, low labour force participation and lack of access to employment are an important component of the dominance of the labour market in driving South African inequality.

In contrast to wages, state transfers are shown to account for up to 10 per cent of income, but make almost no contribution to inequality (i.e. they neither increase nor decrease inequality). This result may seem counter-intuitive; given the means-tested nature of many social grants, one might expect them to reduce inequality. However, these grants target significant income support at specific groups: the elderly, the disabled and households with children. Thus, those households with eligible individuals are moved up into the lower-middle sections of the income distribution, leaving those households without eligible recipients at the very bottom. This result highlights both the importance of the support coming from these grants and the fact that there are gaps in this support structure. It is those who are healthy, of working age but unemployed that are 'missed' by the grants.



Source: National Income Dynamics Study (2008) (conducted by SALDRU for the Presidency)

Ideally, this group should be drawing income from productive employment in the labour market. As it is, there are tricky sustainability issues involved in discussions around the extension of the grants to this group, which should be economically active and able to generate the tax revenue with which to fund grants.

### THE ROLE OF THE LABOUR MARKET

The preceding section pointed to the significant role that labour market income plays in determining the level of income inequality. It is important to recognise that an individual's labour market earnings depend on: (a) whether he or she is economically active (i.e. participates in the labour market); (b) whether he or she is able to find a job (conditional on being economically active); and (c) the wage he or she is able to command in the job market (conditional on finding a job).

In Figure 4.1.6, the labour force participation rates by decile show a generally increasing trend for all deciles from 1993 to 2008. Amongst some of the low income deciles, there is a peak in the rate of labour force participation in 2000 followed by a drop-off in 2008. As expected, the top income deciles display the highest rates of labour force participation, while participation rates are well below 50 per cent in the bottom three deciles.

Figure 4.1.7 shows the unemployment rate by income decile. In South Africa, two unemployment rates enjoy wide usage – a narrow rate that requires active job search in the previous 14 days, and a broad definition that includes individuals who say that they want a job but who have not actively searched for work in the previous 14 days. We use the narrow (official) definition here. The unemployment rate is shown to be decreasing as we move up the income deciles. The unemployment rate is higher in 2008 than in 1993 for every decile, and is particularly severe amongst the bottom five deciles. In 2008, the unemployment rate in the bottom decile was measured at 69 per cent (compared with 5 per cent in the top decile).

In order for a person to be employed, he or she must both participate in the labour market and find a job. The combination of low participation rates and high unemployment rates at the bottom end of the income distribution implies that very few individuals in the lower deciles are employed. Figure 4.1.8 bears this out, showing that the labour absorption rate (the percentage of the working-age population who are employed) in 2008 was a mere 10 per cent in the bottom decile and less than one-third in all of the bottom five deciles. The labour absorption rate

Table 4.1.7: Inequality decomposition by income source, 1993

Income source	Percentage of households receiving	Mean household monthly income (R)	Percentage share in overall Gini
<i>Remittances</i>	24.2	157	-0.5
<i>Capital income</i>	9.7	437	11.6
<i>State transfers</i>	21.9	273	0.2
<i>Labour market</i>	73.4	4 156	88.3
<i>Other</i>	1.4	21	0.3
<i>Total</i>	100	5 044	100.0

Source: SALDRU (1993) Project for Statistics on Living Standards and Development

Table 4.1.8: Inequality decomposition by income source, 2000

Income source	Percentage of households receiving	Mean household monthly income (R)	Percentage share in overall Gini
<i>Remittances</i>	36.4	370	2.1
<i>Capital income</i>	5.6	233	4.8
<i>State transfers</i>	24.7	259	0.7
<i>Labour market</i>	71.8	4 438	90.9
<i>Other</i>	4.6	80	1.5
<i>Total</i>	100	5 372	100.0

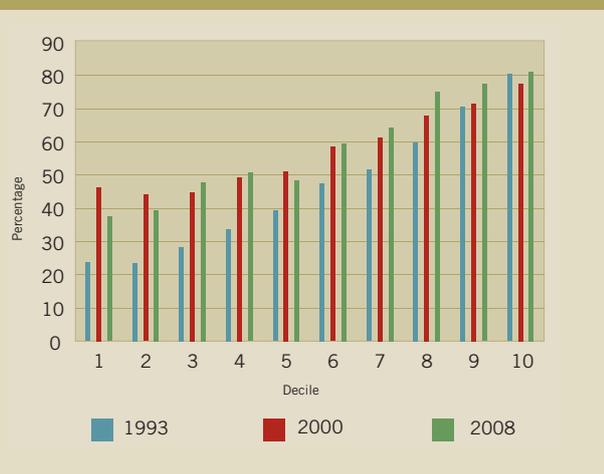
Source: Stats SA (2000) Income and Expenditure Survey

Table 4.1.9: Inequality decomposition by income source, 2008

Income source	Percentage of households receiving	Mean household monthly income (R)	Percentage share in overall Gini
<i>Remittances</i>	14.0	282	5.1
<i>Capital income</i>	7.8	414	9.7
<i>State transfers</i>	47.8	412	0.3
<i>Labour market</i>	71.9	4 128	85.0
<i>Total</i>	100	5 236	100.0

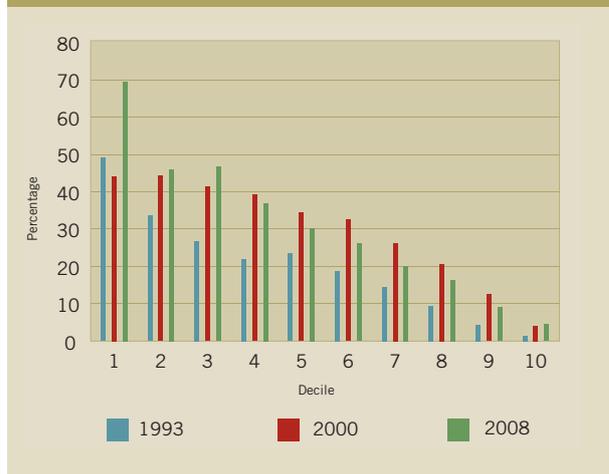
Source: National Income Dynamics Study (2008) (conducted by SALDRU for the Presidency)

Figure 4.1.6: Labour force participation rates by decile, 1993, 2000 and 2008



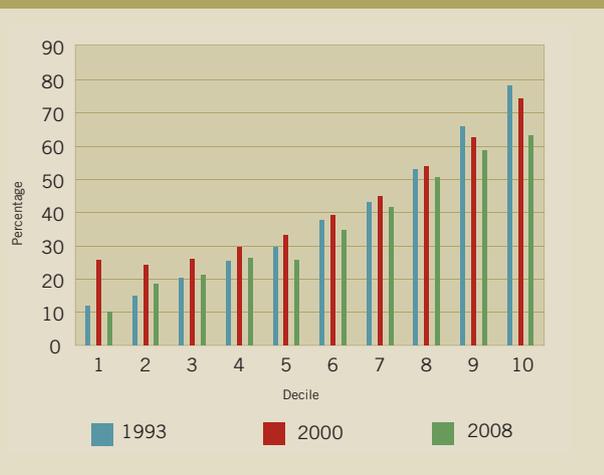
Sources: SALDRU (1993) Project for Statistics on Living Standards and Development; Stats SA (2000) Income and Expenditure Survey; National Income Dynamics Study (2008) (conducted by SALDRU for the Presidency)

Figure 4.1.7: Unemployment rates by decile, 1993, 2000 and 2008



Sources: SALDRU (1993) Project for Statistics on Living Standards and Development; Stats SA (2000) Income and Expenditure Survey; National Income Dynamics Study (2008) (conducted by SALDRU for the Presidency)

Figure 4.1.8: Labour absorption rates by decile, 1993, 2000 and 2008



Sources: SALDRU (1993) Project for Statistics on Living Standards and Development; Stats SA (2000) Income and Expenditure Survey; National Income Dynamics Study (2008) (conducted by SALDRU for the Presidency)

has shown different trends across the income distribution over time. Among the poorest decile, the labour absorption rate peaked at 25 per cent in 2000 before falling to just above 10 per cent in 2008. The top decile had a labour absorption rate that peaked at 78 per cent in 1993 before falling to 63 per cent in 2008.

The previous three figures show clearly that in the initial post-apartheid period participation rates increased faster than absorption rates, with a consequent increase in unemployment rates across all deciles. Since 2000, the aggregate unemployment rate has declined marginally, driven by increased absorption of those individuals in the top six deciles. In the lower deciles, the early post-apartheid trend continued into 2008. Indeed, this lack of successful integration into the labour market is the reason for many of these households finding themselves at the bottom of the income distribution.

## CONCLUSION

The long-run development trajectory in South Africa resulted in a society defined by very high inequality with a strong racial component. Direct racial privileging in state policy towards human capital intersected with a growing private sector economy to generate a prototypical model of inequality-perpetuating growth. Unfortunately, such inequities leave very long-run legacies and these processes are hard to reverse.

The evidence presented in this article shows that South Africa's high aggregate inequality has not fallen. Clearly, 15 years of post-apartheid transition has not been sufficient for these factors to work their way out of South African society. Indeed, South Africa's socio-economic dynamics still contain

South Africa's changing population shares imply that a policy focus on race-based redistribution will become increasingly limited as the foundation for further broad-based social development.

considerable inequality-generating momentum, despite a post-apartheid policy milieu that has explicitly taken on the task of addressing this legacy.

The article further shows that this inequality is being driven by labour market dynamics. Moreover, the lack of unskilled and semi-skilled job creation has effectively removed any poverty-alleviation impetus from the labour market. In contrast to this, it is shown that the increased expenditure by the state on social grants has played a dominant role in the reduction in poverty over the post-apartheid years.

A demographic trend that will have a bearing on these dynamics going into the future is the fact that the African group accounts for 80 per cent of the population (and is rising). Thus, intra-African inequality and poverty trends are already characterising, and will increasingly dominate, aggregate inequality and poverty trends. This is not to say that the country's racial footprint has disappeared, as evidenced by the fact that the between-race component of income inequality remains remarkably high by international norms and its decline has slowed since the mid-1990s. Moreover, the bottom deciles of the income distribution and the poverty profile are still dominated by Africans, and racial income shares are far from proportionate with population shares. Nonetheless, South Africa's changing population shares imply that a policy focus on race-based redistribution will become increasingly limited as the foundation for further broad-based social development. Rather, it would seem that a more dynamically sustainable direction lies in addressing seriously the increasing inequality within each race group.

## NOTES

1. For more information about this survey, see [www.nids.uct.ac.za](http://www.nids.uct.ac.za).





# review

## **POVERTY IN SOUTH AFRICAN: GOVERNMENT ATTEMPTS TO INCLUDE THE EXCLUDED IN DESIGNING POLICIES AND PROGRAMMES AIMED AT REDUCING POVERTY**

*Vusi Gumede*

### **INTRODUCTION**

Since 1994, the South African government has pursued its poverty alleviation mandate consistently through strategies intended to deal with income, human capital, social capital, service poverty and asset poverty. As a consequence, its interrogation of the challenges has related to overall poverty trends and the scale of the so-called 'second economy', and has placed a strong emphasis on the nexus between access to income, services and assets (see, for instance, Gumede 2008a).

Over the past two years, the government has invested significant time and resources in the development of a comprehensive anti-poverty strategy (the Strategy, henceforth) that encompasses the interactions of a variety of structural and temporal variables within this nexus. This article sheds some light on the Strategy and points to some of its major challenges. The Strategy's development was not an overnight process. Consultation with a broad array of social actors was necessary, and a significant amount of reflection was required to think through some of the conceptual and practical issues that would be involved in the Strategy's implementation. It was, for instance, important to reach consensus on conceptual issues relating to the link between poverty and inequality, and to answer strategic questions relating to the action or implementation plan (the Plan, henceforth) accompanying it. As would be expected, agreeing on targets, time lines and indicators for the Plan was a tall order, particularly in the case of critical poverty-alleviating sectors, such as education and healthcare. Added to this, there were important analytical questions relating to the analysis of existing policies and programmes aimed at eradicating poverty and inequality, as well as issues that needed to be resolved regarding the scope of the Strategy.<sup>1</sup>

While the intricacies of the Strategy and its accompanying Plan were being debated, the government launched its War-on-Poverty Campaign (the Campaign, henceforth), in

order to ensure that poor South Africans did not fall victim to inaction resulting from the interim planning phases. In essence, the Campaign was meant to mobilise all the spheres of government towards providing the necessary services for those classified as poor. In addition, the Campaign was to mobilise the private sector and other stakeholders in addressing poverty. Of critical importance, the Campaign was to target the various manifestations of social injustice in communities and to find ways to address issues of social cohesion in partnership with members of such communities.

As indicated above, the article focuses on the nature and content of the Strategy, the processes that precipitated it, and the approaches that were aimed at including various stakeholders in its design.

### **MEASURING POVERTY**

Three commonly used (money-metric) measures are employed to explain and describe poverty – a headcount index, a calculation of the poverty gap, and an estimation of the squared poverty gap. There are convincing reasons, both conceptual and practical, for their use. One of the primary motivations is that, taken together, they are comprehensive enough to be specific on the nature, scope and magnitude of the poverty being dealt with and, therefore, offer the opportunity to open the way for targeted policy and programmatic responses. Below is a brief non-technical explanation of the main measures.<sup>2</sup>

The headcount index measures the proportion of the population whose consumption is less than the poverty line. This index is relatively easy to construct and to understand. However, it ignores differences in well-being between poor households. In other words, it assumes that all poor people are in the same situation; it does not cover depth of poverty. By implication, the index does not change if individuals below the poverty line become poorer or 'richer', as long as they remain below the line.

The poverty gap index, on the other hand, represents the average gap between the living standards of poor people and the poverty line. As such, it indicates the average extent to which poor individuals fall below the poverty line.

Thus, the poverty gap index can be interpreted as a measure of how much (income) would have to be transferred to the poor to bring their expenditure up to the poverty line. Unlike the headcount measure, the poverty gap does not imply that there is a discontinuity at the poverty line. Both, however, fail to capture differences in the severity of poverty amongst the poor. In other words, they are not appropriate instruments to measure inequalities among the poor.

The squared poverty gap index is the weighted sum of poverty gaps (as a proportion of the poverty line), where the weights are the proportionate poverty gaps themselves. This measure takes inequalities among the poor into account. For instance, a (cash) transfer from a poor person to an even poorer person would reduce the index, and a transfer from a very poor person to a less poor person would increase the index. However, it has been argued that the squared poverty gap index is very difficult to read and interpret. As such, policy-making based on this index can be cumbersome. Consequently, for the purposes of policy-making, it is advisable that the measures are used in concert.

Each measure has its advantages and disadvantages, but together they remain useful in decomposing the particular facets of the poverty problem that is being interrogated. As such, the three measures of poverty are better calculated and responded to in total, with the clear aim of either alleviating or eradicating poverty. In the literature, the measures discussed above are known as the Foster-Greer-Thorbecke family of poverty measures. However, it is important to note that each of these measures relies on the poverty line being employed. In the absence of a national consensus on the location of this line, many researchers and scholars in South Africa have assumed, or rather predetermined, their own poverty lines.<sup>3</sup>

The notion of the multidimensional nature of poverty is of critical relevance in a discussion such as this. Generally, the South African government has viewed poverty as consisting of various facets, which require a multi-pronged response that addresses incomes, assets, services and so on. The money-metric measures discussed above are not able to deal with all the dimensions of poverty. In the case of South Africa, the money-metric measures – as discussed below – suggest that (income) poverty has been declining. However, many argue that poverty remains widespread and significant.

It is worth noting that two contrasting definitional approaches to poverty – one broad and one narrow – can be discerned from the subject literature. Narrow definitions of poverty are viewed as minimalistic and are based on subsistence. For instance, the World Bank's definition of it as 'the inability to attain a minimal standard of living', measured in terms of basic consumption needs or income required to satisfy those needs, is indicative of the narrow poverty definition approach. On the other hand, broad definitions of poverty are seen as ideal. They emphasise social inclusion, involvement and participation, specific to a given society at a specific time. In this approach, the standard of living and quality of life of an individual, household or

family are assessed in the context of and in relation to the socio-economic and resource profile of the society. Linked to this is the argument that the values, principles and aspirations that inform the developmental goals of the envisioned society should be key to the conceptualisation, definition and measurement of poverty.

It is worth highlighting that there are also so-called absolute and relative definitions of poverty in the literature. Absolute definitions of poverty refer to poverty measures that do not depend on the average level of poverty in any country at a given time, while relative measures of poverty categorise the poor into discernable groupings (for example, the poorest 20 per cent) for the purpose of comparison. In addition, research on poverty dynamics adapts approaches that can be classified into various broad categories: budget standards, income measures, deprivation indices, consensual and democratic definitions of poverty, human development indices, indicators of multiple deprivation and 'international poverty definitions' (for example, the recently revised international poverty line of US\$1.25 a day in 2005 prices) used mainly for international comparisons.

## POVERTY IN SOUTH AFRICA

In recent years, a comprehensive series of poverty studies has documented the multifaceted variables and impulses that feed into the living conditions of the poor in South Africa. As this body of evidence has grown, it has become increasingly clear that any quest for a single strategy to combat poverty is destined for failure. The conceptualisation of poverty in *Measuring poverty in South Africa* (Stats SA 2000) alludes to the complexity of this condition in South Africa. The report regards poverty as: 'The denial of opportunities and choices most basic to human development to lead a long, healthy, creative life and to enjoy a decent standard of living, freedom, dignity, self-esteem and respect from others.'

**Any quest for a single strategy to combat poverty is destined for failure.**

Recent poverty estimates in South Africa are the focus of the following paragraphs. At the outset, it is important to note that there are peculiar difficulties pertaining to comparative data in South Africa, deriving from the fact that prior to 1994 several regions in the country (generally, the poorest areas) were classified as 'independent homelands'

and, therefore, excluded from the country's main dataset.<sup>4</sup> This has led to the unsettled debate on whether poverty has increased or not since 1994. Researchers and analysts are hamstrung by the data and its methodological inadequacies; however, despite these difficulties, various attempts have been made to attain as accurate a picture of the economic transformation of South African society as possible.

The body of literature that investigates national poverty levels and trends over time, and more recently also its dynamics in particular localities, has grown substantially.<sup>5</sup> As suggested above, the majority of these studies indicate that although the scale of poverty remains daunting, some headway has been made in pushing back its perimeters. This includes research by Whiteford and Posel (1995), May et al. (1999), Woolard and Leibbrandt (2001), Meth and Dias (2004), Hoogeveen and Özler (2005), Bhorat et al. (2006), Van der Berg et al. (2005, 2007), Bhorat and Van der Westhuizen (2008) and others. Table 1 captures some of the recent measures of poverty used by these researchers.<sup>6</sup>

Although still contested by some,<sup>7</sup> several recent studies have suggested that poverty in South Africa is on the decline. In analysing welfare shifts in the post-apartheid period, Bhorat et al. (2006), for instance, show that access to formal

housing grew by 42 per cent and 34 per cent for deciles 1 and 2, respectively, between 1993 and 2004, and by 21 per cent and 16 per cent for deciles 3 and 4, respectively. They also show that access to piped water increased by 187 per cent in decile 1 over this period, while the increase for decile 4 was 31 per cent. In addition, access to electricity for lighting in the poorest households (those in decile 1) grew by an extraordinary 578 per cent. Their research, therefore, strongly suggests that the delivery of basic services has had a significantly pro-poor bias. In the same study, Bhorat et al. show that while 40 per cent of all South African households were asset- and service-poor in 1993, this figure had been almost halved to 22 per cent by 2004.

Another recent study, by Van der Berg et al. (2005), points to a similar decline in poverty. They found that poverty levels had stabilised in the years between the political transition in 1994 and 2000, and had decreased in the years that followed. This study utilised a poverty line that was set at a household income of R250 per month (or R3 000 per year) in 2000 rands. They concluded that, while there had been an increase in the proportion of people living in poverty between 1993 and 2000, there had been a decrease in the size of this population segment from 18.5 million in 2000 to 15.4 million in 2004. Over the same period, the number of

Table 4.2.1: Recent measures of poverty in South Africa<sup>8</sup>

Type of poverty measure	Threshold in 2000 rands	Individuals below the poverty line (2000 IES)
<i>Poverty line set at per capita expenditure of the 40th percentile of households</i>	R346 per capita	54.9%
<i>Stats SA – lower bound*</i>	R322 per capita	52.6%
<i>Stats SA – upper bound*</i>	R593 per capita	70.4%
<i>'Dollar a day' international poverty line (1985 prices) per capita per annum</i>	R81 per capita	8.1%
<i>'Two dollars a day' international poverty line (1985 prices) per capita per annum</i>	R162 per capita	27.0%
<i>'Poverty line' implied by the Old Age Pension means test for married persons, assuming a household of 5 persons and no non-elderly income earners</i>	R454 per capita	63.4%
<i>'Indigence' line of R800 per household per month (in 2006 prices)</i>	R573 per household	11.7%
<i>'Indigence' line of R2 400 per household per month (in 2006 prices)</i>	R1720 per household	55.1%

Note: \*In Hoogeveen and Özler (2005)

non-poor South Africans rose from 26.2 million in 2000 to 31 million in 2004.

Van der Berg et al. (2005) showed, moreover, that the real per capita incomes of individuals comprising the poorest two population quintiles had increased by more than 30 per cent between 2000 and 2004. In this regard, their research concludes that for all poverty lines ranging from a per capita income of R2 000 to R4 000 per annum, poverty had decreased since 2002, after a modest rise at the end of the previous decade. They argue that the impact of the recent expansion of social grants on the poor is likely to have been significant, considering that real social assistance transfers from the government increased by some R22 billion (in 2000 rands) during 2003–2005, an amount well in excess of R1 000 per poor person.

Bhorat and Van der Westhuizen (2008), using poverty lines of R174 and R322 per person per month in 2000 prices, conclude that during 1995–2005 both absolute and relative poverty were reduced. They also show that both poverty lines and the poverty gap index declined. As indicated in the *Fifteen Year Review* (PCAS 2008), at R322 per person per month, money-metric poverty declined from 53 per cent in 1995 to 48 per cent in 2005. At R174 per person per month, poverty declined from approximately 31 per cent to 23 per cent. Linked to this are improvements in job creation and social transfers to the most vulnerable. For instance, Van der Berg et al. (2007: 11), using the *Labour Force Survey*, show that 'approximately 1.7 million jobs were created between 1995 and 2002 and 1.2 million between 2002 and 2006'. In relation to social transfers, government records suggest that about 13 million South Africans receive cash transfers; this excludes the social wage inherent in free basic water and electricity, and subsidised housing (see PCAS 2009).

One does not need to look further than the current global recession to realise just how vulnerable these recent gains are in the fight against poverty eradication. Complacency is dangerous, because even though the available trends point to a consistent decrease in poverty levels since 2000, the number of those remaining below the poverty line continues to be significant. Of course, linked to this is the challenge of inequality, which will continue to test the strength of national social cohesion. In the light of this awareness that poverty has not declined to desired levels over the past 16 years, combined with the challenges that poverty poses for political stability, the government resolved to formulate a comprehensive strategy that would rigorously address the various dimensions of poverty. The findings of studies reviewed above (most of which were commissioned by the government) culminated in the idea of a strategy. Although

research seemed to suggest that poverty trends were declining, the government argued that a comprehensive strategy was required to address the multiple dimensions of poverty more rigorously.

## THE STRATEGY<sup>9</sup>

The drafting of the Strategy officially began in January 2007, with the Cabinet's endorsement of a brief discussion document titled 'Towards an Anti-poverty Strategy for South Africa', which was prepared by the Presidency's Policy Co-ordination and Advisory Services (PCAS) as a working document that would form the basis for developing a comprehensive strategy aimed at reducing poverty. The document presented the argument and reasons for formulating a comprehensive strategy, drawing from the experience of poverty reduction in the country and developments in the literature and other countries with regard to poverty reduction. The founding discussion document argued that the Strategy would ensure, among other things, an improvement in the co-ordination and monitoring of implementation of poverty reduction measures. It recognised that poverty seemed to be declining, but not satisfactorily. Among the key objectives, it was envisaged that the Strategy would aim to:

- improve co-ordination and monitoring of anti-poverty programmes across government departments and spheres;
- enable a strategic focus and broaden the scope of initiatives to deal with a wider range of issues linked to poverty and social exclusion;
- ensure that all policies prioritise sustainable and developmental poverty eradication, which is rooted in economic and social engagement by communities and households;
- mobilise civil society, the private sector and communities to address poverty; and
- involve households in expanding human capabilities and strengthening solidarity with the poor.

These founding objectives have remained the guiding motivation for the development of the Strategy throughout its various draft versions. It is important also to highlight that in the January 2007 extended Cabinet sessions (also referred to as *makgotla*,<sup>10</sup> and the President's 'State of the Nation' address of February 2007, specific commitments were made concerning the requirements for a poverty eradication strategy. The following objectives were referred to in the 'State of the Nation' address:

- define a poverty matrix for the country;
- develop a proper database of households living in poverty;
- identify and implement specific interventions relevant to these households;
- monitor progress in these households as the programmes take effect in graduating them out of poverty;
- address all indigence, especially the high numbers of women so affected; and
- co-ordinate and align all anti-poverty programmes to maximise impact and avoid wastage.

The original discussion document proposed the identification of specific pillars or themes, which were to act as an anchor for the Strategy. Since the first draft, these pillars have increased from five to nine. The following are the main pillars of the Strategy:

1. *basic income security* – aimed at providing safety nets for the most vulnerable;
2. *basic services and other non-financial transfers* – referring to what has been termed a social wage, consisting of free basic municipal services like water, electricity and refuse removal, and other social services such as free education and primary healthcare for the poor;
3. *social inclusion initiatives* – combining initiatives to ensure an inclusive society;
4. *human resources development* – investment in health, education, cultural activities and sports as the basis for both economic and social inclusion;
5. *creation of economic opportunities* – aimed at ensuring that the economy generates chances for poor households to earn improved incomes through jobs or self-employment;
6. *access to assets* – particularly housing, land and capital, including public infrastructure;
7. *improving healthcare* – ensuring that poor children grow up healthy, providing quality and efficient preventative and curative care to those who cannot afford to pay, and ensuring that illness or disability do not plunge poor households into destitution;
8. *environmental sustainability* – reversing environmental degradation, promoting ecotourism, responding to climatic changes and encouraging efficient and sustainable exploitation of the environment; and
9. *good governance* – direct intervention in the provision of information, facilitating participatory democracy, pro-poor policies and sound macroeconomic management and partnerships/solidarity.

The second important aspect of the original discussion document is its emphasis on the role of various stakeholders in addressing poverty. The discussion document set out from the premise that it is crucial to build effective partnerships to work towards a sustainable reduction of poverty. The third important component of the Strategy has been the leadership role of the state and, significantly, its degree of internal cohesion. Strongly linked to the latter has been the growing emphasis on better targeting and ensuring that all the policy gaps are addressed speedily. The concern about better targeting was one of the main factors that resulted in the Campaign. It should be noted that various non-governmental institutions played an important role in the conceptualisation of the Campaign and the thinking about the Strategy.

In addition to the sharpening of its analytical and conceptual content, subsequent drafts of the Strategy elaborated upon issues relating to the pillars, the principles and the sustainability of its approach. In terms of the latter, and in the light of the multidimensional nature of poverty in South Africa, the earlier drafts of the Strategy envisaged a focus on:

- reducing poverty levels within households and the number of poor households;
- reversing the incidence of poverty;
- preventing the recurrence of poverty;
- improving the 'second economy' and creating viable 'bridges' to the 'first economy'; and
- ensuring spatial integration.

In addition, the Strategy elaborates the following as main strategic focus areas:

- creating and increasing economic opportunities and facilitating access;
- tackling poverty faced by children, youth, women, people with disabilities and the elderly; and
- providing rural development and agricultural support for families.

In essence, the Strategy builds on the work and accomplishments of the years since the dawn of democracy. While the achievements have varied, there have been improvements (to some extent) in the way the government addresses various dimensions of poverty. Its policies and investments have contributed to economic growth and employment, the provision of basic social services, the improvement of human development, the protection of vulnerable groups and the enhancement of social cohesion

within the overall framework of sustainable development. As a result, these strengths have emerged as the main pillars upon which the Strategy would ultimately rest.

As such, the Strategy in its current draft form does not propose a complete overhaul of the above-mentioned principles and approaches, nor is it a claim to unmitigated success in their implementation. What it does seek is to ensure that important sub-strategies are better co-ordinated across departments and across spheres. For example, projects that work to improve social, economic and environmental conditions in targeted areas should complement specific employment, health and education initiatives underway in the same areas. Similarly, departmental programmes should not be limited to the identified locations, but should target vulnerable groups, irrespective of where they live. The current initiatives, thus, make up the first phase of efforts to fight poverty. The intention of the Strategy is to build upon what is already in place. It is envisaged that the Strategy will evolve in a way that retains best-practice approaches, while simultaneously addressing the existing gaps and emerging challenges.

In its very essence, the Strategy should be seen as an attempt to scale up the fight against poverty in a more co-ordinated fashion, and in a way that prevents the intergenerational transmission of poverty within households and communities. The creation of economic opportunities, and the means for communities and individuals to access these opportunities, is at its heart. Although the provision of a safety net in the form of social assistance and basic services can be seen as an ongoing effort by the government, the Strategy has argued consistently that the government's primary objective should be to empower individuals and communities to support themselves.

The government, therefore, has prioritised the creation of economic opportunities that will promote self-sufficiency. Whereas economic growth has produced new job opportunities in recent years, these have not been sufficient to make a sizeable impact on the critically high levels of unemployment that persist. Consequently, the Strategy undertook to develop new approaches towards the creation of sustainable economic opportunities and jobs on a larger scale. Economic strategies were to prioritise shared growth, particularly by generating opportunities for employment and self-employment, supplemented by a substantial expansion in public employment schemes.

Given the emphasis on self-sustainability, rural development and agricultural support for households constitute an important component of the Strategy. As a result, it has argued for reinforced interventions in order to change the situation of

poor South Africans who reside in rural areas. It suggests that the government should actively promote an appropriate mix of smallholder farm schemes and larger farms, and enhance the processing of agricultural products in ways that support increased rural employment, including self-employment. In terms of this thinking, it is envisaged that agricultural support to households would provide food security, especially in cases where there is either a lack or a complete absence of earned income. Eventually, such support may become a source of income as smallholdings are developed into productive small farms. Measures to achieve this may include the improvement of the level of physical and institutional infrastructure in rural areas (rural roads, irrigation, access to markets, credit, resources, education and training, technical support and so on), as well as land reform that supports the generation of rural livelihoods on a mass scale. Quite evidently, there would need to be linkages between these broad proposals in the Strategy and those that are emerging in the strategy around rural development that is envisaged.

**Although the provision of a safety net in the form of social assistance and basic services can be seen as an ongoing effort, the government's primary objective should be to empower individuals and communities to support themselves.**

Another strategic focus area, in the earlier drafts of the Strategy, has been the prevention of inter-generational reproduction of poverty. By improving the economic situation of parents, through ensuring their participation in economic activities, the opportunity exists to break the cycle of poverty that would otherwise be transferred to their children. Conversely, the Strategy also aims at ensuring improved prospects for children who grow up in poor families. To this end, human resources development and, in particular, education and skills development will play a significant role in preventing the intergenerational transmission of poverty. Education and training opportunities are critical for older children and young adults. Therefore, efforts should be concentrated on ensuring that those who can still benefit from acquiring education and skills do so. In this regard, the Strategy calls for measures to ensure that young people stay in school longer, acquire quality education and receive training that will enable them to take advantage of various economic opportunities, both immediately and in the future.

As indicated above, the Strategy recognises the need to reinforce partnerships at all levels, among departments, government agencies and non-governmental organisations. Its implementation requires a concerted and inclusive approach, with the buy-in of all potential social stakeholders. So far, the initiatives to combat poverty have relied heavily on programmes and projects sponsored and administered by the government. Whereas the government has a significant leadership role to play in this regard, it should be able to draw on the reach and vast human resources capacity beyond the ambit of the state bureaucracy.

### THE PROCESSES: INVOLVING NON-GOVERNMENTAL INSTITUTIONS

Given the Strategy's emphasis on broad social partnerships to address questions of sustainable poverty eradication, the government – through the PCAS – has gone to great lengths to accommodate the views of social partners (non-profit organisations, the private sector and higher education institutions) in the finalisation of the Strategy.

The products of these consultation processes were endorsed at extended bi-annual Cabinet sessions, which were guided by the task team made up of participants from the economic and social clusters.<sup>11</sup>

The PCAS' thinking around this was that it could not simply write up the Strategy and impose it on the rest of the government and society. An additional consideration at the time was the fact that a new administration was about to replace the existing one. The expertise and knowledge of the new administration was going to be critical for the strengthening of a strategy as fundamental as a poverty eradication programme. Regardless of the administration, however, the complexity of the issue of poverty dictated that it would be of critical importance to incorporate as many voices as possible to inspire the final Strategy. Within the government, the PCAS acted as a facilitator in the drafting of the Strategy, given that a document was required to shape discussions and debates within the government, first and foremost.

In 2007, a government task team invested much energy in the drafting of the Strategy. Most of 2008 was used for public consultations, which included both formal and informal conversations with working groups of the Mbeki administration, and with researchers and activists. Views expressed during the consultations were taken into account, as far as it was feasible, and the revised Strategy was presented at the January 2009 Cabinet *lekgotla*. The *lekgotla* concurred with the recommendation of the task team that further consultations were needed and that it appeared necessary

to allow further redrafting so that the new administration would have an opportunity to apply its mind to the proposed Strategy before its finalisation.

At the new administration's May 2009 Cabinet *lekgotla*, a further revised Strategy was tabled with recommendations on the processes aimed at further consultations with various stakeholders. The *lekgotla* endorsed the recommendations, and an enhanced process was launched, involving not only organised non-governmental formations but also social movements and individuals that were known to be knowledgeable on matters of poverty alleviation and, particularly, on the question of ensuring effective partnerships across society for sustainable poverty reduction. The original intention behind further consultations was not only to improve on the draft of the Strategy presented to Cabinet in May 2009, but also to work towards a joint programme, between the government and various partners, on eradicating poverty in South Africa – the Implementation Plan for Poverty Eradication in South Africa.

The conceptualisation of the process was relatively ambitious, yet mindful of potential risks and/or limitations. It seemed that the government was becoming impatient with endless consultation on the Strategy. Social partners were also reluctant to engage in further consultation, as they felt that the government needed to implement programmes/projects rather than endlessly consult about what had to be done to eradicate poverty. However, in early stages of further consultation, it turned out that there was value in the exercise. New ideas emerged and insightful suggestions were made as to how South Africans could partner the government in the implementation of the Strategy. Of course, the jury is out as to whether further consultation, two years after completing a draft Strategy, was worth the trouble. It is, however, safe to argue that provincial workshops on the Strategy (as an example) generated further insights on poverty dynamics in South Africa.

### CONCLUDING REMARKS

This article has presented the initial thinking around the anti-poverty Strategy for South Africa. It has pointed to the most salient features of the Strategy, and has aimed to highlight the dynamics of the consultation processes, both in the drafting of the earlier drafts of the Strategy and in the attempts to facilitate a joint government and non-governmental response to poverty eradication.

There are many relevant issues that this article could not touch on. For instance, discussions in the Cabinet are only alluded to, as details cannot be divulged. Also, specific

comments on the various drafts of the Strategy could not be presented here, given the multiplicity of those consulted and the views that they conveyed. It can be said, however, that no one sector or person objected to the initiative of having a countrywide anti-poverty strategy.

In conclusion, then, this article does not aim to defend the thinking around the Strategy; rather, it is concerned with the ideas, their respective contexts, and the processes involved. However, one of the areas that any discussion on poverty must touch on is the challenge of inequality. The drafters of the Strategy, as well as the facilitators of the conversation on the Strategy, were at pains to emphasise that a strategy focusing on poverty reduction alone could not adequately address the related challenge of inequality. In addition, there are several conceptual issues that even the advanced drafts of the Strategy could not address satisfactorily. One such issue that perhaps requires further thought is the question of how urban poverty could be addressed more systematically.

Lastly, consultations were expected to assist in addressing two issues: the sharpening of an implementation plan, based on effective partnerships; and the refinement of the articulation between the various pillars of the Strategy. These two aspects of the Strategy will largely determine success or lack thereof in its implementation. Linked to this are two critical, perhaps implicit, assumptions in the draft Strategy: that capacity to implement its various aspects would be scaled up; and that the state would act in unison in the implementation of the Strategy. Another fundamental assumption, also perhaps implicit, is that the economy will grow sustainably and that it will create opportunities that those classified as poor or 'unemployable' are able to exploit meaningfully.

As the earlier drafts of the Strategy emphasised, state cohesion will probably be the make-or-break factor in the implementation of the Strategy. Put differently, the proposed or chosen institutional mechanisms for implementing and overseeing the Strategy, including requisite capacities, will ultimately determine the success of its implementation. The ability of the state to create and properly lead partnerships with the various stakeholders and affected communities is equally critical.

## NOTES

1. Taking into account the multidimensional nature of poverty (i.e. that it involves lack of income, lack of human capital, lack of social capital and lack of assets), the question arose whether the Strategy would also have to deal explicitly with strategies for improving social cohesion.
2. For a technical explanation and mathematical treatment of the relevant equations, refer to Gumedde (2008a).
3. At the time of writing, there was not yet a Cabinet-approved poverty line.
4. For instance, the 1995 Income & Expenditure Survey (IES) was not based on clearly demarcated and adequately mapped enumeration areas, whereas the 2000 IES was based on improved demarcation and listing of households (guided by Census 1996).
5. Most of the studies that examine poverty dynamics focus on or use the KwaZulu-Natal Income Dynamics Study. See, for instance, Carter et al. (2001), Adato et al. (2006) and May et al. (2007).
6. Refer to *Towards an anti-poverty strategy for South Africa: A discussion document on the framework*, unpublished paper of the Presidency's Policy Unit. Also, processes are still underway for determining an official poverty line for South Africa.
7. The work (and publications) of Charles Meth and Van der Berg et al., in particular, have presented different estimates, with Meth and Dias (2004) showing an increase in the number of poor people, specifically between 1999 and 2002. Meth (2006) seems to agree (with Van der Berg et al's estimates) that it is likely that the poverty headcount declined between 2000 and 2004.
8. Refer to Gumedde (2008a) – the table was generated by Professor Murray Leibbrandt of the School of Economics and the Southern Africa Labour and Development Research Unit at the University of Cape Town.
9. At the point of finalising this article, the Strategy was still undergoing adjustments. Therefore, the article does not discuss the content of the (final) Strategy.
10. Cabinet *makgotla* were bi-annual gatherings, normally lasting for three days, of the President and the Deputy President with Ministers, Premiers, Deputy Ministers, Directors-General, Heads of Department, representation of the South African Local Government Association and the top managements of the PCAS and Cabinet Office as well as Presidential Advisors. Refer to Gumedde (2008b) for further details.
11. Refer to Gumedde (2008b) on the cluster system.

# analysis

## RURAL LIVELIHOODS AND MARKET INTEGRATION: AGRARIAN POLICY IN SOUTH AFRICA

*Andries du Toit*

### INTRODUCTION

In recent years, it has become increasingly clear that any attempt to deal with poverty in South Africa needs to confront the structural marginalisation of poor people: the reality is that, even if our economy manages to grow, many people are positioned in such a way that they will be unable to make use of the opportunities for growth. This idea has been crystallised particularly by the notion of the 'second economy' originally proposed by ex-President Thabo Mbeki. This article engages with this thinking, and examines its significance for rural development. It explores the ways in which structural marginalisation can be countered in agriculture and agrarian policy. In particular, it surveys recent research on agrarian change, agriculture and land reform in South and southern Africa, and argues that sensible policies that can help poor and marginalised people require us to think much more critically about what is involved in both marginalisation and integration into markets.

The article begins with a short discussion of post-apartheid agrarian policy and, in particular, how policy-makers have understood the role of growth, commercial agriculture and integration into markets. It then discusses the actual results of market integration in two interrelated rural contexts: jobless de-agrarianisation in former bantustan areas in the Eastern Cape; and the incorporation of small farmers in commercial commodity chains. Both cases show how important it is to pay attention not only to the overall task of linking poor people to markets but also to the terms of incorporation. The article concludes with some remarks on more appropriate directions for policy.

### AGRARIAN CHANGE, MODERNISATION AND NARRATIVES OF INTEGRATION

#### **The apartheid legacy and the new policy consensus**

Questions about the consequences and implications of market integration and inclusion are particularly relevant

to agrarian and rural development in South Africa, partly because our understanding of apartheid's rural legacy relies so heavily on the notion of exclusion. This history has already been described extensively elsewhere (see, for example, Plaatjie 1982; Bundy 1987; Keegan 1988; Worden 1994; Van Onselen 1996; Mamdani 1996; Ntsebeza 2006; Moyo 2007). Two aspects are of particular relevance here. Firstly, segregation and dispossession left the lion's share of agricultural land in the possession of a tiny minority of about 60 000 white farmers.<sup>1</sup> Secondly, state support for agriculture was deeply skewed: while small black farmers in the bantustans received little assistance, white commercial agriculture was accorded high levels of support and protection.

Given the intractable and divisive nature of this legacy, what is noteworthy about post-apartheid land and agrarian policy is the great degree of consensus that emerged as the ANC prepared to take power in the run-up to 1994. This consensus was enabled partly by the ANC's abandonment of any programme of large-scale nationalisation, and by its eventual conviction that large commercial farmers would be more efficient and provide better food security than small farmers. These underlying points of departure were the foundations for a policy that seemed to promise a painless defusing of apartheid's inequitable legacy in the countryside through a programme that would de-racialise land ownership while not threatening major social conflict. At the heart of the promise was a vision of land reform as being essentially a process of pro-poor market integration. The ANC's 1994 manifesto and its initial formulation of the Reconstruction and Development Programme (RDP) described land reform as an 'opportunity for growth', and promised to use the redistribution of 30 per cent of land to small black farmers to 'kick-start' rural development (ANC 1994a). Those dispossessed of land under racial policies since 1913 could claim it back through a court process, and insecure tenure in the former homelands would be rectified by institutionalisation and formalisation – but it seemed that the main vehicle for the transformation of the countryside would be a market-based, state-assisted land-reform programme aimed at giving new black farmers access to the opportunities for enrichment offered by commercial agriculture (ANC 1993; see also NDA 1998, 2001).

Contrary to many critiques from the left, the ANC's land reform policy after 1994 was *not* simply a neo-liberal vision. Rather, it hoped to use a mix of market and regulatory measures to de-racialise power and ownership. New black farmers' entrance to commercial agriculture would be supported by a range of measures aimed at eradicating

racially based disadvantages. These measures ranged from subsidies for land acquisition to the broader application of interventions for black economic empowerment. However, although the policy was mixed, it was shaped ultimately by a faith that poverty could be addressed through access to the opportunities offered by markets, and that markets could allocate resources and reward investment in a way that was reconcilable with the aims of equity, social stability and racial redress.

As important as the measures for supporting and protecting marginalised workers and creating a new class of black commercial farmers was a sweeping programme of deregulation aimed at thoroughly liberalising agricultural markets and rolling back the measures that had 'distorted' them in the past. This had already been under way in piecemeal fashion since the mid-1980s, but the new government consolidated and accelerated it under a broad agricultural marketing policy framework aimed at all sectors of agriculture (Jacobs 2009).

It is important to note that these three parallel policy thrusts – labour and tenure re-regulation, state support for new entrants, and market deregulation – were conceived of as acting *in concert*. Land redistribution would allow for more equitable access to land ownership and the other resources required for commercial agriculture; labour regulation would protect workers from the exploitation that characterised the highly racialised labour regimes of the past; and market deregulation would 'shake out' inefficient white farmers who had depended hitherto on the super-exploitation of black labour and the protection afforded them by the apartheid state. What gave ANC agrarian policy its coherence (and ensured support for it) was not simply an evaluation of the *actual* likely consequences and the desirability of the individual policies and measures on which it depended; neither was it in any real way the result of what these days is called evidence-based policy-making. Rather, it secured broad assent because it was enfolded in a compelling and widely supported *ideological meta-narrative* about the relationship between racism, tradition, modernity, progress and South Africa's integration into a global economic and social community. These underlying assumptions were widely shared. While land-based NGOs and those previously involved in resistance against forced removals continued to protest against the market-based nature of the mechanisms of land reform, a surprisingly large swathe of South African civil society, from black farmers' unions to the trade union movement, from the progressive sections of white agriculture to mainstream business organisations, bought into this basic ideological vision.

## CONTRADICTIONS AND CONSEQUENCES

Compelling visions and powerful paradigms are one thing, of course; what actually happens when policy-makers and governments try to act on them is another. At the time of writing, it is evident that this policy mix has not delivered the expected results. For the most part, land reform policy has met with failure. The programme has fallen woefully short of its targets for land redistribution, and small black farmers continue to be marginalised and impoverished (Lahiff 2008).

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Of course, the reasons are many and various. A comprehensive account of the failure of agrarian policy in South Africa has to consider a wide range of interlocking and complex factors, including the *lacunae* in rural development policy more broadly, the failure and limited capacity of the state at local level, the impractical, bureaucratic and contradictory design of many of the implementation measures, the constraining macroeconomic environment, and many others (Lahiff 2008). Tempting as it might be to blame all of the ills of land reform *tout court* on neo-liberalism, it should be recognised that there is no simple ideological 'magic bullet', no alternative analysis or policy framework that, were it to have been adopted, would have enabled the new government decisively to resolve the problems it faced in the countryside. As Henry Bernstein (1996) has argued, the configuration of race and power in the South African countryside is 'extreme and exceptional': the question of the path of capitalist transformation in the countryside has been resolved decisively – in favour of capital. No coherent and organised social group exists that convincingly can challenge or restructure productive relations in the post-apartheid countryside. Therefore, the scope for change is constrained, and land reform policy, however it is formulated, can have only limited impact (Walker 2005).

What, then, are the alternatives? This article explores the possibility that, although not every flaw and failure of the ANC's land reform policy can be traced back to failures of analysis and ideologically slanted assumptions, developing

## No coherent and organised social group exists that convincingly can challenge or restructure productive relations in the post-apartheid countryside.

sensible and appropriate agrarian policies does require that one goes beyond the blind spots and the unexamined assumptions that underpinned the new government's agrarian vision. In the pages that follow, it is suggested that this vision was based on unrealistic and mistaken assumptions about the likely consequences and impacts of 'inclusion' and 'integration' into commercial markets. This is not to say that inclusion will always and automatically be negative. It simply implies that realistic policies require a more sober assessment of who can benefit from inclusion, of the terms of inclusion, of its differential impacts on marginalised and vulnerable groupings, and of the ways in which disadvantage and powerlessness might or might not be countered.

In the following sections, recent research conducted within the Institute for Poverty, Land and Agrarian Studies (PLAAS) and the Chronic Poverty Research Centre (CPRC) on aspects of agrarian change in South Africa is considered. This overview cannot pretend to completeness, but much can be learned from each of these studies about contradictions and tensions that are much more general in scope.

### Jobless de-agrarianisation in the Eastern Cape

Firstly, we consider research on chronic poverty in the Mount Frere area in the 'deep rural' Eastern Cape (Du Toit & Neves 2006, 2007, 2009a, 2009b). Poverty here is driven by post-industrial decline and jobless de-agrarianisation (Bryceson & Jamal 1997; Bank & Minkley 2005; Du Toit & Neves 2006). For decades, livelihoods have depended heavily on migrant remittances, but the industries employing such migrants have been in decline since the 1980s, and remittances from the urban areas are drying up. Young adults leaving school find few opportunities for access to urban job markets, and many job-seekers end up returning to their home villages. At the same time, the opportunities for sustainable local livelihoods have been diminishing. Agriculture has been in decline: the terraced fields earlier used for planting field crops (the *insimbi*) stand unused and unfenced, being used mostly for grazing, while household agriculture is concentrated increasingly on small planted garden plots (Andrew & Fox 2004). In contrast to processes of de-agrarianisation

elsewhere, there has been no corresponding increase in service-sector jobs. Many households depend entirely on cash transfers, with old-age pensioners or disabled people sharing (or being forced to share) meagre grant income with a large number of dependants (Du Toit & Neves 2006; Bank & Minkley 2005).

To some extent, of course, the prime causes lie with the harsh climate, the distance from commercial centres, and governmental neglect. Years of non-investment have deprived the area of vital infrastructure. There is no local provision for irrigation; roads are poorly maintained and often impassable in winter; there is no subsidised public transport to speak of, and markets are unreachably distant. At the same time, the lack of opportunities for local economic activity is not only a consequence of distance and lack of connection with South Africa's mainstream economy. To some extent, the problem lies in the fact that the mainstream economy *is* present, but in ways that undermine the space for local enterprise. In many parts of the Eastern Cape, the social relationships of labour and the productive strategies upon which local agricultural production depended appear to have been substantially eroded by modernity. Animal traction, which depended on a local relational economy of reciprocal exchange, has been replaced by the use of tractors, so that only those who already have money can afford to plough. The most marginalised and poorest households, those who can least afford store-bought food, are precisely those with the fewest opportunities for independent agricultural production (Heron 1991; Du Toit & Neves 2006).

An especially ambiguous role is played by the presence in many of these areas of the giants of South Africa's retail and services sector, and of the major supermarket chains (Spar, Boxer/Pick n Pay and Shoprite), in particular. The ability of supermarkets to sell relatively low-priced staples has complex local effects. On one level, it does enable those who have some cash to stretch their resources. On another level, the arrival of supermarkets has had profound effects on the local productive economy. The availability of cheap staples reduces the incentives for local agricultural production – not only because home-grown maize is no longer significantly cheaper than store-bought, but also because access to store-bought maize does not involve the risks imposed by the vagaries of the local climate and by theft. Secondly, it has eviscerated the local trading stores that, before retail deregulation, formed the hubs of a local credit economy. Thirdly, local supermarkets compete with small entrepreneurs, squeezing them out of the service economy, while their supply chains bypass local producers. Ultimately, supermarkets work to plug the deep rural areas into the national retail economy,

but on disadvantageous terms, creating circuits of exchange that siphon money out of the local economy and bypass the multiplier effects that might otherwise stimulate rural development (Du Toit & Neves 2007).

What happens to agriculture in this context? Household-level production continues to play an important but limited role. While almost all local households are involved in agriculture (in the Mount Frere area, 97 per cent report using land for food production, and 83 per cent own livestock of some kind), only 6 per cent of these households report that agriculture produces a cash income. Furthermore, for a vast majority of the households that are involved in agriculture, food production plays only a supplementary role: 87 per cent of households report that they are dependent on store-bought maize meal all year round, while only 5 per cent report that they can produce enough maize for own consumption for 3 months in the year or more (Du Toit & Neves 2006).<sup>2</sup>

What is particularly worth noting, however, is the complex role agricultural production and consumption have in local social networks and in processes of reciprocal exchange. Where households do produce a surplus, they are as likely to barter as to sell it. Agricultural production is one aspect of a classical pluri-active livelihood strategy, in which householders combine a wide range of different income-generating and other activities. Research seems to indicate that one of the benefits of this pluri-activity is that it not only allows households to spread risk, it enhances households' ability to seek synergies and convergences that create a whole greater than the sum of its parts. A key to survival for poor people is their skill as strategists and integrators, weaving disparate sources of income and complex processes of social exchange into a coherent existence. Both agricultural production and the distribution and consumption of what is produced are deeply imbricated in complex processes of reciprocity and negotiation within and between households.

In other words, 'subsistence production' needs to be understood not only in terms of its relation to markets or its vital contribution to food security, but also in terms of the way in which it enables a wide range of forms of *non-monetised* exchange and the accumulation of 'social capital'. It is central to the institutions, arrangements and practices of local systems for informal social protection and the forms of symbolic credit, social prestige and exchange on which these systems depend (McAllister 2008; Du Toit & Neves 2006). As such, it plays a vital local socio-economic role, and is central to the ability of the rural areas to serve, even today, as a 'cushion' or 'buffer' for failed migrants and for urban kin needing support in facing unemployment or other shocks (Du Toit & Neves 2009a).

Crucially, most South African agrarian policy is for all intents and purposes irrelevant to these producers. Tenure reform is all but stalled in the logjam around the implementation of the Communal Land Rights Act 11 of 2004, while support for 'new' and black farmers ignores the needs of small and 'subsistence' producers. Almost no extension or infrastructural support reaches them. The land grants of the Department of Rural Development and Land Reform (previously the DLA) do not address their needs: their most pressing problem is not lack of access to land, but lack of access to cash with which to farm it.<sup>3</sup> This is a point to which we will return: while subsistence farmers make up the majority of food producers in South Africa, they exist in an almost complete policy vacuum (PLAAS 2009). In spite of rhetoric to the contrary, the most notable feature of post-apartheid agricultural policy is the perpetuation of apartheid's agricultural dualism: government thinking is still characterised by a Manichean divide between 'subsistence farming', on the one hand, which is conceived to be backward, traditionalist, disconnected from markets and of negligible importance to development and food security, and 'commercial farming', on the other, which is understood in terms of the business models, operating practices and farming styles of large-scale, technology-, management- and capital-intensive industrial agribusiness (PLAAS 2009).

**While subsistence farmers make up the majority of food producers in South Africa, they exist in an almost complete policy vacuum.**

#### **Incorporating small farmers in commercial markets**

Outside of proposals for tenure reform, the central focus of post-apartheid land policy is not subsistence farming but enabling access to commercial markets by marginalised black producers. In early policy documents, it was imagined that this would be accomplished through a mix of market and non-market measures: on the one hand, liberalisation would be used to open up markets for all participants, while, on the other, 'new entrants' would be provided with selective state support to enable them to compete. However, although the first part of this programme – the deregulation and liberalisation of agricultural markets – was accomplished with thoroughness and determination, there has been relatively little in the way of clear or workable proposals for how small farmers would be supported.

The key vehicle by which the post-apartheid government

sought to regulate agriculture was the Marketing of Agricultural Produce Act 27 of 1996, a sweeping piece of legislation aimed at increasing market access for all agricultural producers, promoting the efficient functioning of agricultural markets, maximising earnings from the export of agricultural products, and enhancing the viability of the agricultural sector. It was a radical departure from the piecemeal and reversible liberalisation of agricultural markets begun in the mid-1980s: it changed the way in which marketing policy was managed and decisively opened the sector to global influences (Tregurtha & Vink 2008). As Jacobs (2009) points out, the Act was pivotal in that it provided the template for *all* policies focused on agro-food markets and agrarian reform, creating the economic context for land reform, black economic empowerment (BEE) and agricultural support. Vitality, the Act de-racialised the regulation of agriculture, doing away with the laws that had governed agriculture in the former bantustans and, thereby, 'bring[ing] black smallholder farmers under one national agricultural market policy regime' (Jacobs 2009). An important consequence of this, however, was that henceforth there would be little basis for distinguishing and separately treating small black farmers and new entrants into commercial agriculture. Despite the fact that real-world conditions did not mirror their notional legal equality, they were lumped with other commercial producers. While there was some recognition that small farmers, unassisted, would not be able to compete against established, large-scale commercial farms, proposals for 'levelling the playing field' were confined to the selective support of small farmers, through access to market information and extension services, for example (Jacobs 2009). Later proposals included the facilitation by the government of contractual joint ventures between small-scale farmers and private investors – the assumption being that there would be a transfer of skills and access by black farmers to capital, markets and technology (Tapela 2008).

This has not translated into reality, part of the reason being that land and agrarian reform was the direct responsibility of two different government departments: while actual redistribution of land was the responsibility of the Department of Land Affairs, almost all matters related to agricultural production and marketing lay with the Department of Agriculture. This created a discontinuity between the acquisition of land, on the one hand, and what came to be called 'post-settlement support', on the other; a classic case of un-joined-up government, which often left land reform beneficiaries high and dry. This has contributed to the significant rate of failure of land reform projects in

meeting their economic objectives: the Department of Land Affairs itself estimates that around 50 per cent of all land reform projects have failed or collapsed (PLAAS 2009). The further separation of these two departments into two separate *ministries* in the Zuma administration brings the strong risk that this disconnection will get worse.

However, the disconnection has not been due merely to institutional design. It is also the result of an ideological struggle between two very different visions of the place of small farmers in the agricultural sector. Policy-makers linked to the Department of Land Affairs were often informed by an analysis premised on the so-called 'inverse relationship' between farm size and efficiency. According to this view, smaller farms tend to have higher returns per hectare than larger farms, partly because they are not exposed to the same problems of labour supervision, and partly because they are more labour intensive (Lipton 1993; for a recent reprise of these arguments, see Wiggins 2009). This analysis has not been shared by policy-makers and planners in the Department of Agriculture, who still tend to assume that commercial success depends on economies of scale. Consequently, they have paid little attention to the need for subdivision of redistributed land. Furthermore, as a recent study noted, 'there is no technology policy or orientation that encourages or enables beneficiaries to adopt more labour-intensive styles of farming' (PLAAS 2009: 19).

The main outcome of this disconnection has been the creation of a second policy vacuum: alongside the almost complete inattention to the role and needs of the 'subsistence' sector, there is also what Michael Aliber has characterised as the problem of the 'missing middle' – agricultural policy continues to assume large-scale production and is marked by a lack of attention to the real needs and capacities of what are probably large numbers of market-oriented or potentially market-oriented smallholders (PLAAS 2009). This has meant that land reform and agricultural policy is not informed by an understanding of the difficulties faced by new small farmers. The 'business plans' required of land reform beneficiaries often have little bearing on reality, usually having been drawn up by planning consultants who simply cut-and-paste existing commercial farming models with scant regard for the actual capacities, needs and proclivities of land reform beneficiaries. Increasingly, researchers are arguing that post-settlement support as it is presently designed is unable to remedy the fundamental problems created by programme and project design.

Another problem is that policy has tended to conceptualise access to commercial markets with very little attention to the wide range of *different* ways in which small farmers

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connect to markets. Often, new entrants are assumed to compete in the same markets, and in the same way, as their large, industrial, corporate and mostly white-owned equivalents. In particular, it is assumed that land reform beneficiaries could benefit significantly from being given access to high-value niche markets (organic produce, for example) that would allow project costs and loans to be recouped rapidly.

The reality is that smallholder farmers are often poorly positioned in the value chains that link them to these markets (Ponte 2005). This is an important warning to those who promote commercially oriented smallholder farming as a pathway out of poverty on the strength of the notion of the 'inverse relationship': even if there *are* efficiency gains linked to smaller farming sizes, smallholders are disadvantaged in other ways. While many smallholders rely on informal rural markets, they are frequently out-competed in these markets not simply on price, but because most of the produce sold in these markets is supplied by vendors who prefer dealing with players who can supply them in large volumes (Jacobs 2009). Similarly, smallholders are at a disadvantage when dealing with the large retail multiples that increasingly dominate the South African food market: many of these, especially the large players that serve high-income markets, have highly centralised procurement and distribution systems with which smallholder farmers are not well positioned to cope. In addition, smallholders often find it hard to comply with these buyers' requirements in terms of consistency, variety, quality and certification systems (Ponte 2005; Jacobs 2009).

Here, it is important to remember that, as Ponte (2008) has asserted, the implications of agro-food value chain integration for small producers differ markedly, depending on the nature and structure of the value chain. Value chains that are less buyer-driven can have substantially positive impacts on poverty (Ponte 2008). Similarly, Jacobs (2009) has pointed out that, in South Africa, smaller local supermarkets that source fresh produce from local farmers do not offer the disadvantages facing smallholders attempting to deal with centralised national supermarket chains, and

wholesale produce markets like the Johannesburg Fresh Produce Market have expanded access to trading facilities for smallholders. While these downstream actors do not offer access to the high-value niche markets targeted by supermarkets such as Woolworths and Pick n Pay, they may offer more sustainable pathways to integration (Jacobs 2009).

These distinctions, however, have not found much purchase in policy. A telling example of what can go wrong in the integration of smallholder farmers in commercial farming is provided by Tapela's (2005, 2008) case study of the Revitalisation of Smallholder Irrigation Schemes (RESIS) programme in Limpopo province. A key issue here was that irrigation reform was not aimed simply at helping smallholder farmers by restarting dilapidated schemes; instead, access to the benefits of these interventions was conditional upon implementers 'capacitating' these smallholder farmers to farm *profitably*. These preconditions resulted in poorly thought-out interventions that ignored the real interests of small farmers and their social relationships on the ground. Thus, the notion that water reform had to 'pay its way', and that investment in small farming was worthwhile only if it led to commercial production, ultimately meant that vulnerable and poor farmers were subject to greater degrees of risk, as well as stringent phytosanitary requirements and other regulatory pressures with which they were ill equipped to comply. Tapela shows how this led to intractable conflict and project failure. Small farmers without the financial wherewithal to compete effectively in commercial cotton production ended up indebted and in danger of losing their land. The notion that all investment in infrastructure for small farmers had to find its justification in commercial production, and the further assumption that commercial production had to involve integration into supermarket-dominated or export-oriented agro-food systems had dire consequences: project implementers and government officials ended up shoe-horning marginalised and poor land reform beneficiaries into projects based on templates that had little to do with their own plans or their material realities (Tapela 2008).

Tapela reports that more recently, partly as a result of a recognition of the constraints faced by small farmers competing in commodity markets, there has been a shift in the emphasis of the RESIS programme away from active participation by small-scale farmers towards a focus on infrastructure development. In terms of this new focus, smallholders' land is being 'opened up' to access by private investors. In effect, this means that smallholders are being reduced to farm workers, and their land is controlled by large-

scale commercial (white) farmers. The irony is inescapable: policy-makers and implementers in post-apartheid South Africa are supporting programmes that involve a wholesale abandonment of the aims of land reform, and preside over processes that mirror and repeat the erosion of land rights that characterised rural struggles during apartheid.

### Agrarian reform and the terms of agro-food integration

These case studies, firstly, underline the importance of going beyond the basic counterposition of 'exclusion' and 'inclusion', and question the assumption that poverty is a simple or direct result of 'exclusion' from markets, which needs to be met with a corresponding effort at 'inclusion'. Secondly, they stress how important it is to be quite clear about just *what* it is that people are excluded from or connected to. Thirdly, they emphasise that it is particularly important to look at the ways in which people are inserted – as producers *and* as consumers – into local and global commodity chains, in general, and agro-food chains, in particular. Fourthly, they suggest that the analysis of social exclusion or incorporation should pay attention not only to market inclusion or exclusion, but also to insertion in other social formations (social networks, patron-client relations, and so on).

In the context of the Eastern Cape, for example, attention to the nature and terms of exclusion and inclusion shows how important it is to go beyond the simple notion that the region's economic problems stem from spatial isolation.

In the first place (and this is a point to which we will return), to characterise agriculture in the Transkei in terms of its disconnection from distant markets is to understand it only partially. 'Subsistence' agriculture is not 'autarkic' or 'disconnected'; it is richly integrated and connected. However, these connections pertain not only to distant markets, but to local, *non-market* and *social* systems of transaction and exchange. Subsistence production plays an important role, not only through its direct contribution to household income, but also as part of the local practices through which moral community, neighbourliness and social standing are enacted and maintained.

In the second place, it seems that integration of the rural Eastern Cape into the broader capitalist economy of South Africa has had highly differentiated impacts. A small, fragile elite is well positioned, both in terms of local social relations and in terms of their relationship to the 'mainstream economy'. Securely plugged into the apparatus of the local state and possessing strong and advantageous connections to the urban job market, they can use their positional power to form networks of local patronage that work to their

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benefit. Very differently positioned is an impoverished 'pensionariat' (Bank & Minkley 2005) that subsists on pensions and on meagre remittances from urban relatives. This group benefits in some ways from the presence of supermarkets that can provide staples and foodstuffs more cheaply and securely than can be achieved by their own production; but, in the long run, the presence of 'big retail' in the rural areas also acts to undermine the prospects for smallholder agricultural production and local markets, to undermine the informal sector and to reduce the opportunities for multiplier effects. Social networks in this context are vital but vulnerable. They can ameliorate the worst impacts of poverty and vulnerability but increasingly are stressed and conflictual. The worst off are those who are marginalised in *both* the local moral community *and* the market economy; bereft of cash or resources, they lack any real leverage in their local social networks, where they often transact on highly disadvantageous and exploitative terms.

Where attempts have been made to integrate small farmers into commercial markets as producers, success or failure has depended on the configuration of the agro-food systems concerned and the exact ways in which small farmers have been located within them. Hopes that small farmers would be able to benefit from the opportunities afforded by links to high-value market niches have tended to be torpedoed by the demands placed on producers participating in buyer-driven value chains. A crucial issue here is that success is affected not only by on-farm productive efficiency, but by the additional demands imposed by requiring compliance with quality and other standards, and by the demands for economies of scale among downstream actors. Small farmers have done better when they are connected to less profitable, but less demanding, local markets. Even local informal markets, however, are dominated by large commercial farmers, who have been better served by intermediaries. The track record of smallholder integration into South African markets underlines Stefano

Ponte's warning that 'integration of people or areas into global value chains and trading relationships will exacerbate chronic poverty if the "normal functioning" of these chains is left unchecked' (Ponte 2008: 1).

## COMMERCIAL INTEGRATION AND PRO-POOR LAND REFORM

### Policy, politics and ideology in agrarian reform

Criticism of South African land reform programmes, particularly by the left, has tended to focus primarily on the difficulties imposed by the constitutional protection of property rights and the limitations imposed by the 'willing buyer, willing seller' model on the ability of the government to expropriate white owners' land. As Lahiff has pointed out, this exclusive focus on the obstacles to the means of land acquisition misses deeper and possibly more intractable problems (Lahiff 2008). Above and beyond the problems imposed by the direct cost of land acquisition, agrarian change has been undermined by the fact that agricultural policy is not informed by any coherent vision of the role of subsistence agriculture, and is dominated by models of commercial agricultural production slanted in favour of large-scale industrial farming, which is ill suited to the realities faced by small farmers (PLAAS 2009).

This disjuncture has created serious tensions in post-apartheid agrarian policy. On the one hand, land reform is motivated by pro-poor and social equity aims. On the other hand, land reform projects are implemented through models premised on the primacy of commercial production, while other elements of land reform policy emphasise the creation of a new layer of commercial and medium-scale black farmers. This tension has meant that land reform implementation has been characterised by a succession of (mostly failed) attempts to find viable models for land acquisition and 'post-settlement' support. Aliber et al. (forthcoming) note that while 'the overall aims of land reform remain as broad as when the White Paper on South African Land Policy was issued in 1997 – i.e. to promote equity, justice, poverty reduction, economic upliftment, and tenure security – for land redistribution in particular there has been a noticeable shift in favour of commercially oriented ventures'. Implementation has been marked by an increasing tendency to de-emphasise support to subsistence farming and to emphasise the importance of commercial farmer support. Thus, the Department of Land Affairs' (as it then was) initial Settlement and Land Acquisition Grant (SLAG), which subsidised the acquisition of land by poor and landless people, made way for the Land Reform for Agricultural Development

(LRAD) grant, which did not require beneficiaries to be poor to be eligible, and which linked grant size to the amount of savings and finance candidates could bring to the table (DoA 2001; Lyne & Darroch 2003). More recent proposals have been for a parallel distribution programme known as the Land and Agrarian Reform Programme (LARP), a programme explicitly focused on transferring 5 million hectares to potentially successful medium-sized black beneficiaries, in the hope of adding 10 000 black farmers to South Africa's commercial agriculture sector (PLAAS 2009). While LARP has the benefit that it tries to resolve the contradiction at the heart of land reform policy, it does so by relinquishing most of land reform's pro-poor content. If it succeeds, LARP will amount at best to an expensive programme in 'narrow BEE': billions of rands will be spent in establishing a small group of medium-scale black farmers, while the legacy of rural landlessness, de-agrarianisation and politically charged histories will be left untouched.

The significance of this last point should not be underestimated. The contradiction between a notionally pro-poor land reform policy aimed at social equity and the redistribution of land rights, on the one hand, and a neo-liberal economic and marketing policy emphasising global integration, competition and efficiency, on the other, cannot be resolved simply by choosing to abandon the social and equity aims of agrarian policy. For one thing, rural poverty, food insecurity and hunger are not issues that South African policy-makers concerned with agrarian issues can simply ignore. The South African government needs viable and sensible approaches to support the livelihoods of the two million households who rely on agricultural production. In addition, workable forms of support are needed for an estimated 100 000 or more small farmers who produce for commercial markets on a modest scale (PLAAS 2009). Failure to do so will simply result in deepening structural and chronic poverty, on a rising tide of unemployed rural job seekers in the already over-saturated job markets of the cities and small towns.

More seriously, as Cheryl Walker (2005) has noted, land reform relates to more than poverty and hunger. While land reform policy in South Africa has tended to be narrowly focused on technical discussions of livelihood sustainability and commercial viability, public debates about land in South Africa derive their political prominence and symbolic importance from the much broader context of the political transition, the legacy of colonialism, and still largely unresolved questions about race, equity and national identity (Walker 2005). In this context, the domination of South Africa's commercial farming sector by a small group

of white, large-scale farmers and agribusinesses becomes symbolic of the larger political and economic problems posed by continued chronic and structural poverty and the limited success of the post-apartheid government in linking growth to redistribution. The historical legacy of land dispossession, thus, carries a powerful political charge in broader debates about national identity, reconciliation, historical justice, and the legitimacy of South Africa's negotiated settlement and Constitution. The contested role of land reform in the political and economic crisis in Zimbabwe powerfully illustrates the destabilising and explosive potential of leaving such issues unresolved.

### Beyond the contradictions?

The contradictions and problems that characterise South African agrarian policy cannot be resolved easily. At the same time, it seems that some of the difficulties created by the blind spots of existing policy can be addressed. An analysis sensitive to the dynamics of exclusion, inclusion and adverse incorporation can be useful here, as these may help question naive or simplistic expectations about what can be achieved by connecting poor rural people with markets. In particular, policies can be much more sensitive to the differential impact of market integration, and should allow for a greater range of modalities and forms of connection (and non-connection) with commercial markets. The recommendations marshalled here, it should be said, are not a comprehensive discussion of all the policy changes needed; these are already discussed in detail elsewhere (PLAAS 2009). Attention is focused here on matters that relate specifically to the terms of agro-food incorporation.

The first shift this implies is something of a no-brainer; in a context where millions of poor people depend on agriculture for food and social security, subsistence food production should be valued and supported actively. Agrarian policy should not be deformed by a narrow ideological commitment to commercial production. In a sense, political and ideological conditions may be ripe for a shift in the right direction. Recent developments in thinking about responses to poverty and chronic poverty have seen a re-emphasis and a reevaluation of social protection. This may cast in a different light the disparaging comment, commonly made by proponents of an emphasis on commercialisation, that land reform aimed at supporting subsistence agriculture is 'merely welfare'; support for subsistence agriculture can be premised precisely on the value of this welfare function. Here, it is important to realise that social protection need not refer only to formal (public or private) systems; thinking on social protection should also take cognisance of the crucial role played by informal systems of social protection

(Bracking 2003; Du Toit & Neves 2009a). In the rural areas, smallholder agriculture is central to the networks and exchanges upon which informal social protection depends.

Secondly, models of commercial smallholder support need to be informed by a more realistic understanding of the potential and the limits of smallholder production. Support should not only be focused on production inputs and technical training for on-farm production, it should also be informed by a much clearer appreciation of the importance of the downstream links by which small farmers are connected to markets, and the power relations these involve. Crucially, this suggests that much more attention can be paid to how those value chains themselves are structured.

This opens for discussion a complex, challenging and hitherto unexplored policy area, for it is clear that many of the difficult and problematic dynamics noted here cannot be addressed without asking searching questions about the design and functioning of these downstream commodity chains, and, in particular, about the role of South African supermarkets in the governance of these chains. This is a surprisingly under-researched issue, and very little serious policy research has been done on the implications of the massive domination of South African food retail by large corporate multiples (see Jacobs 2009). Furthermore, in striking contrast to industrialised societies, where consumer and political activism has placed supermarkets in the spotlight, the practices of South African supermarkets and the social impacts of these practices have gone virtually unchallenged. The result is that there is a large range of issues, from sourcing practices to quality standards, where both the South African public and the government effectively have allowed retail multiples to avoid concerns that have a major impact on the livelihoods and food security of millions. The structure and governance of agro-food chains is seen essentially as the private business of supermarkets, which often are naively viewed as the guardians of consumer interests and low prices. If agrarian reform is to stand any chance of connecting poor people with commercial markets in a beneficial way, these unexamined assumptions will need to be contested.

### NOTES

1. The commercial (i.e. white) farming sector in South Africa in 1993 was comprised of some 57 980 'farming units' (Stats SA 2005).
2. This is broadly in line with national trends and patterns. According to South Africa's Labour Force Survey, 4 million people (in about 2 million households) report practicing agriculture. An estimated 92 per cent engage in agriculture for food production, mainly to supplement other sources of food, while 4 per cent report significant cash income from agricultural production (PLAAS 2009).
3. Nor are they waiting for micro-credit. The riskiness of agricultural production in this environment and its imbrication in a local relational economy, rather than in direct commercial production, means that many of those who would plough if they had the money would be unlikely to benefit from formal provision of financial instruments.



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## 2009 Transformation Audit **Recession and Recovery**

*Recession and Recovery* offers an assessment of the concrete impact that negative growth had in 2009 on the longer-term prospects for the creation of an equitable and just economic dispensation in South Africa. Successive editions of this publication have shown that the quest for economic transformation is a challenging one under the best of circumstances; the implications of a recession undoubtedly compound the magnitude of the task. Will South Africa sustain its transformational momentum in the economy in a context of shrinking government revenues, growing material insecurity and a substantial decline in employment levels? How will the new Zuma administration navigate its way through these troubled waters?

Although it is impossible to document in this volume the full impact of South Africa's first economic contraction in 17 years, the selection of articles has been informed by a desire to single out those issues that could provide key pointers to

the broader state of South Africa's economic transformation in one of the most challenging years since democratisation. At the same time, this publication seeks to look beyond the major setbacks of the past years and to ask pertinent questions about the prospects for recovery and the challenges that the country will have to prepare itself for in this regard.

As in previous years, the Audit's central objective remains to provide an uncompromising, authoritative annual analysis by the country's leading analysts and emerging thinkers of the state of socio-economic transformation. As such, the insights contained in *Recession and Recovery* once again provide fresh perspectives on the publication's four areas of emphasis: the macro-economy, the labour market, skills and education, and poverty and inequality. Together, the various contributions provide groundwork to inform the deeper debates that are required to map the road to greater prosperity for all South Africans.

**The audit is a revolutionary idea, because it is an audit of national performance, not a performance audit of government, or of one or other organisation, but rather it questions how we, the South African society, are doing.**

– Mamphela Ramphele



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