<<<THE TRADE-OFF BETWEEN EQUITY AND GROWTH -- AGAINST THE BACKGROUND OF SOUTH AFRICA'S POWER STRUGGLE>>>

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<<1. The controversial nature of the South African trade-off>>

South Africa is standing at the threshold of dramatic changes in its political, economic and social structures. These changes are destined to bring about fundamental adaptations in the power relations between the different population groups that have been -- until recently -- defined and organised along racial lines. The changes in the power relations between the racial groups will -- in turn -- have profound influences on policy formulation and on policy application.

Due to the sharp inequalities that exist in the distribution of power, wealth, property, opportunities and income between the different population and/or racial groups, policy measures to remove at least the worst of these inequalities will remain high on the political agenda for decades to come. The reform and the redistributive measures will have rather far-reaching implications on the economy's capacity for growth and on the actual growth rate that will be attained. We have ample reason to suspect that the trade-off between 'equity' and 'growth' and the policy measures to promote each of them, will not only remain the focus point of public debate, but can easily remain one of the main sources of on-going group conflict and political friction.

The expected controversial nature of the trade-off between 'equity' and 'growth' in the decades ahead will be partly due to the fact that South Africa as a developing country will in all probability experience -- as almost all developing countries are already experiencing -- a rather intense and direct conflict between 'growth' and 'equity'. It will be highly desirable to move onto a higher growth path and to succeed with types of economic growth that will be conducive to equity. But it will not be easily attainable. In the meantime the expected controversial and painful nature of the trade-off between growth and equity will be perpetuated by the deep social, political and economic 'divided' that has been created by the apartheid system.

<<2. The trade-off between growth and equity in developed countries>>

An American economist, Arthur Okun, described the trade-off between 'equality' and #efficiency# -- or (in our terminology) between #equity# and (economic) #growth# -- as 'our (i.e. America's) #biggest socio-economic trade-off# -- ... more nagging and pervasive (than the trade-off between inflation and unemployment) ... (and one that) plunges us (i.e. economist and/or policy scientists) #in dozens of dimensions of social policy# @1@. (My italics.)

Okun explained the importance and the controversial nature of this trade-off as follows: 'If both equality and efficiency are valued, ... then, in places where they

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1) Okun, Arthur, M., #Equality and Efficiency -- The Big Tradeoff#, The Brookings Institute, Washington, D.C., 1975 pp. 1-2.

#conflict#, compromises ought to be struck. In such cases, some equality will be #sacrificed# for the sake of efficiency, and some efficiency for the sake of equality. But any #sacrifice# of either has to be justified as a necessary means of obtaining more of the other (or possibly of some other valued social end). In particular, #social decisions that permit economic inequality must be justified as promoting economic efficiency# (p.88). When they are standing in a conflicting relationship, society is frequently, according to Okun, 'obliged to #trade# between efficiency and equality' (p. 88). In such circumstances we cannot, according to Okun, 'have our cake of market efficiency and share it equally' (p. 1).

Something that must be emphasized in any trade-off -- but especially in the trade-off between 'equity' and 'growth' -- is that society cannot only take the effects of the 'trade' between (say) 'equity' and 'growth' into account but must always be aware of possible 'side-effects' on other valued ends. This point was aptly put by Okun when he said that the trade-off between 'equality and efficiency ... plagues us in dozens of dimensions of social policy' (pp. 1-2 and 8).

But equality and efficiency -- or 'equity' and 'growth' -- need not always be in conflict in the sense that one can only be promoted at the cost of the other. Depending on how 'equality' or 'equity' is defined, it is possible for a country to experience simultaneously and for a considerable period of time, a high economic growth rate and improvement in several of the indices used to measure 'equality' and #'equity'#. The seventeen highly industrialised countries with effective democratic political systems - i.e. sixteen Western democracies plus Japan - experienced in the 'golden period' from 1950 - 1973 an annual growth of output (GDP at constant prices) per head of population of 3,8 per cent.@2@ During this period the percentage of the population with incomes below the poverty level, declined sharply in all seventeen countries due partly to increased social spending in the relevant countries.

In spite of the simultaneous improvement in growth and equity in affluent countries during the 'golden period', Okun acknowledged that even in the affluent countries the trade-off between equality and efficiency 'will never be solved ... for the conflict between equality and economic efficiency is inescapable' (p. 120). He was nonetheless of the opinion that the conflict between #equality# and #efficiency# can be reduced considerably in the affluent countries if governments can persist with public policy measures aimed at the equilization of opportunities (p. 79). The eradication of poverty are within the grasp of the affluent nations, but to accomplish it, these countries need 'the improbable mixture' of capitalism and democracy: 'to put some rationality into equality and some humanity into effficiency' (p. 120).

It is fundamental to the idea of a trade-off -- in the meaning attached to it by Okun -- that it is sometimes unavoidable to #sacrifice#, for a certain period of time, one valued social end in an attempt to get more of another

2) See Maddison, A, "Phases of Capitalist Development". Oxford University Press, 1982, p. 44.

social end and in the prospect to attain more of both over the longer run. (I am often puzzled by the attitude of South African economists and politicians that are regularly prepared to make a trade-off between 'economic growth' and 'economic stability', -- and to sacrifice growth for long periods of time to stabilize the economy -- but are not prepared to #sacrifice# -- even over the short term -- 'growth' for the sake of 'equity' in order to promote 'growth' and 'equity' over the long run. I have often asked myself the question whether these economists and politicians will acknowledge the relevance of the trade-off between 'growth' and 'equity' if they could be convinced that the 'stability' needed for 'growth' can in certain circumstances only be 'bought' at the price of more 'equity'.)

Milton Friedman and Peter Berger are typical representatives of a school of thought that is even more optimistic than Arthur Okun that the (apparent) conflict between #equality# and #efficiency# can be reduced considerably in the affluent capitalist countries by a high economic growth rate. They, however, set the condition that the government's intervention and redistributive policies should be limited.@3@

3) Friedman is almost dogmatic in his claim that 'with respect to changes over time, the economic progress achieved in the capitalist societies has been accompanied by a drastic diminution in inequality .... He alleged that 'the distribution of income is ... an area in which government has been doing more harm by one set of measures than it has been able to undo by others.' He also warns that distributive measures can bring 'equality ... sharply into conflict with freedom'. Peter Berger, gives in a recent book a sophisticated and long term interpretation of the effect of economic growth on equality in the affluent Western countries since the Industrial Revolution. Milton Friedman, ~Capitalism and Freedom~, University of Chicago Press, Chicago, 1962. 1972 Edition, pp. 199-200 and 176. Peter Berger, ~The Capitalist Revolution~, Wildwood House, 1987, p. 211.

Friedman's and Berger's optimistic belief that economic growth in the affluent capitalistic countries will spontaneously have more or less the desired redistribution effect, is not shared by economists on the left of the ideological spectrum. Walter Weisskopf claims that the distribution problem is chronically neglected in capitalist countries because of the mistaken belief 'that the growth of the "cake" increases everybody's "slice" and makes superfluous any concern with a more equal distribution'. But given the power structures of capitalist countries, the 'present economic system brings affluence to the majority but tends to deprive certain ... groups of its blessing'.@4@

In the debate on the trade-off between growth and equity, those on the right of the ideological spectrum is against redistributive measures when it endangers freedom (as they understand it), while those on the left of the spectrum are not satisfied with redistributive measures if it is only limited to income redistribution and does not succeed in reforming the power relation in order to create a higher degree of economic democracy. The argument of freemarketeers like Friedman and Berger that redistributive measures pose a main threat to liberty, is strongly refuted by a political scientist like Robert Dahl. According to him the most fundamental challenge to liberty derives from inequality -- and especially the inequalities of power -- that has become concentrated in the hands of the large

4) Weisskopf, W., 'Moral Problems of Modern Capitalism' in ~Perspectives on the Economic Problem~, ed. A. MacEdau & T.L. Weisskopf, Prentice Hall, New York, 1976, pp. 78-79.

corporations. He concluded that the modern 'corporate capitalism' tends 'to produce inequalities in social and economic resources so great as to bring about severe violations of political equality and hence of the democratic process...'.@5@

The strategic role the large corporations played in economic growth in the period after the second world war cannot be disputed. But at the same time these corporations have been responsible for an extraordinary concentration of power that has implications for the trade-off between growth and equity and on government policy in general.

The inequality of power 'created' and 'perpetuated' by 'corporate capitalism' has become an important bone of contention between authors to the right and the left of the ideological centre. Hayek and Nozick are propagating the idea that the free markets are 'powerless' mechanisms of co-ordination and that State intervention to bring about a more equal distribution of power and/or income will have a disruptive effect because it will not only be against the rule of law and the built-in efficiency of the automatic mechanism of the freemarket system, but will also violate the principle of freedom.@6@ David Held rejects this claim because 'it is based on a highly limited conception of freedom'. He alleged that those who see markets as 'powerless' mechanisms of co-ordination are not only out of touch with the true nature of corporative capitalism but are also unable to appreciate 'the distorting nature of economic power in relation to democracy'. He claims that questions concerning economic, social and racial inequalities cannot be treated as illegitimate matters for political analysis and policy as the New Right attempted to do. He agrees with Robert Dahl that 'corporate capitalism' has created 'distributional questions' that are necessarily central to a thorough account of the nature of liberty and democracy. Consequently the 'asymmetry' in the distribution of power and resources in modern 'corporate capitalism' should be a major concern of democratic governments that take equality and liberty seriously.@7@

<<3. The trade-off between equity and growth in developing countries>>

While appropriate redistributive measures have succeeded to reduce the conflict between equity and growth considerably in the affluent countries, the trade-off between growth and equity is, for a variety of reasons, much more complex and controversial in developing countries. Consequently it is often not possible to improve equity in these countries without doing serious harm to the growth potential of the relevant economies.

According to Peter Moll 'there are countless examples of redistributive efforts all over the developing world which have ultimately impoverished their intended beneficiaries. There are also many examples of successful redistribution'.@8@

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5) R. Dahl, ~A Preface to Economic Democracy~, Cambridge Polity Press, 1985, p. 60.
6) Hayek, F. #Law, Legislation and Liberty#, Routledge and Kegan Ravl, London, 1982 and R. Nozick, #Anarchy State and Utopia#, Basil Blackwell, 1974.
7) Held, D. ~Models of Democracy~, Polity Press, Oxford, 1987, pp. 252-255.
8) Peter G. Moll, 'Introduction' in P. Moll, N. Nattrass and L. Loots (editors), ~Redistribution~, 1981, p. viii.

The interaction between equity and growth and the problems of poverty and deprivation (and the apparent inability of the so-called underdeveloped countries to experience a take-off) received comprehensive attention in the economic literature since the second world war. Out of an intense debate on the strategy of economic development, a school of thought, strongly influenced by Arthur Lewis, regarded a high economic growth rate -- in especially the modern sector of an underdeveloped economy -- as the most effective way to eradicate poverty and to break down the social inertia and other stumbling blocks in the way of sustained economic growth in the developing countries.@9@

One of the outstanding features of the Lewis-approach was that although the eradication of poverty and socio-economic upliftment were put forward as the long term objectives to be attained by economic growth, the core strategy of this approach was that the fate and predicament of the poor should not be a major concern in the earlier stages of the development process. Sharp criticism against the Lewis-approach was originally expressed by Paul Streeton.@10@ Subsequently further criticism was expressed by Gary Fields. His criterium is based on research done over 25 years by the Economic Growth Centre at Yale University. This research could find no confirmation for the Lewis-thesis that the poorer half of the population in developing countries will have to be content with greater poverty and

9) Lewis, A. ~Development Planning, the Essentials of Economic policy~, Allen and Unwin, London, 1966, p. 273.
10) See Streeton, Paul, 'From growth to bare needs' in ~Poverty and Basic Needs~, Sept. 1980, pp. 5-8.

deprivation before their position can improve over the long run.@11@

Due to the greater inequalities and the widespread nature of poverty in developing countries, it is, nonetheless, reasonable to conclude that the conflict between growth and equity is often much sharper in these countries than in affluent countries and that it is also more difficult to determine how much 'growth' must be sacrificed in these countries to attain a certain degree of 'equity' and vice versa.

Terence Moll came to the conclusion -- after analysing the microeconomic redistributive strategies of developing countries -- that one major reason why a (predictable) redistribution-growth trade-off might not hold in developing countries 'is simply that many redistributional efforts do nothing for either growth or redistribution!'@12@

<<4. Inequalities and poverty in South Africa>>

Before anything can be said about the possible growth-equity trade-off in South Africa and what may be appropriate policy strategies, it is necessary to put the multitude of

11)Fields, Gary, 'Income Distribution and Economic Growth', in ~The State of Development Economics~, edited by G. Ranist and T. Paul Schultz, Basil Blackwell, 1988, Paperback 1990, pp. 468-9.
12) Moll supplies the following three reasons why the poorest people are left out of redistributional attempts in developing countries: 'Firstly, many governments prefer to "bet on the strong", shifting assets to people with some skills ... who may use such assets more efficiently than the very poor ... Secondly, redistribution often reflects a shift of power to middle-class reformist elites who are keen to widen access to economic benefits associated with the state, but fail to extend them to the mass of the population. ... A third problem is that it is often simpler to redistribute within particular sets of market relations, than to people outside them'. Moll, Terence, 'Microeconomic redistributive strategies in developing countries', in Moll [et al.] (ed), Redistribution, p. 22.

inequalities and the nature of the poverty problem in a broader perspective.

The nature of the trade-off between equity and growth in South Africa's case cannot be compared with the nature of the trade-off in either the developed or the developing countries. Due to the apartheid structures and policies a 'deeply divided society' was created and structurally institutionalised. These 'divisions' in society will continue to have ramifications on political and economic developments -- and on policy matters -- for decades to come.

The restructuring of the South African society and the implementation of redistributive policies can never be 'neutral' vis-a-vis the division inherited from the colonial and the apartheid eras of the South African history. Apart from anything else, the restructuring of the South African political and economic structures and the implementation of redistributive policies, must always have the additional function of 'bridging' the 'deep divide' and to compensate for structures and policies that were for many decades exploitative and morally wrong.

The sharp inequalities in South Africa are often described and characterized as the 'inequalities of apartheid'. This is an oversimplification. Many reasons of an historical, cultural and demographic nature can be furnished for many of these inequalities and even for its close correlation with the four racially defined population groups. But it cannot -- and it should not -- be denied that the structures and policies of colonialism and apartheid has created and maintained, over a period of at least 120 years, social, economic and political conditions that were exceptionally favourable for mainly the whites and unnecessarily unfavourable and even exploitative for the rest of the population. Although the structures and policies of colonialism and apartheid cannot be blamed for all the inequalities, a large (albeit indeterminable) part of these inequalities can -- and should -- be blamed on the social, economic and political structures created in the period of colonialism and apartheid.

To simplify the rather comprehensive problem of racial inequalities in South Africa, we can reduce the inequalities to two main categories: firstly, the (structural) inequality in the distribution of 'property, power and control' and, secondly the unequal 'opportunities, income and consumption' available to the different racial groups. Although the two categories are mutually related, the first category has a more structural (or long term) nature and it will be much more difficult to address the inequalities in this category than to address the inequalities in opportunities and income available to the different statutory groups.

As part and parcel of the apartheid system, the inequality of 'property, power and control' have an uniquely South African character. It is estimated that 88 per cent of all personal wealth is owned by the top 5 per cent of the population. Due to the Land Acts of 1913 and 1936 it was (until recently) not possible for blacks to own land (small exceptions aside) in 87 per cent of the South African territory. As far as power is concerned, the political and

economic power and control are very much concentrated in the hands of the white group. During the Election of 1989 only 6,3 per cent of the potential electorate voted for the NP and put the 'executive power' in the hands of the present (non representative) government. Almost all the employees in the top echolon of the public administration are Afrikaansspeaking whites and ideologically strong orientated towards the NP. As far as economic power and control are concerned, less than 10 'corporate conglomerates' control more than 80 per cent of the value of the stocks quoted on the Johannesburg Stock Exchange. 'Media power' is concentrated in the hands of the SABC and the three largest newspaper groups.

It is, however, important to realise that 'power' is not only concentrated in the four 'centres' represented by the government, the bureaucracy, the corporate sector and the media. Over the last 20 years a #rapprochement# came about between these four centres of power and (especially during the last two years) an informal but rather solid 'compact of power' has been formed between them. The mainly white Establishment is based on this 'compact of power'. This Establishment has a strong vested interest to perpetuate its power base as intact as possible into the post-apartheid South Africa. It is strongly orientated towards the maintenance of its strong bourgeois ideology - a bourgeois ideology with a conspicuous #nouveaux riches# undertone. This Establishment tries to justify -- and will continue to try to justify -- its position of power and privileges on its reputed experience and efficiency, and on its real and potential contribution to economic growth with selfrighteousness and arrogance. To maintain its position of power and privileges as intact as possible, this Establishment will resist strongly and relentlessly almost every attempt towards 'restructuring'; towards the unravelling of the 'compact of power', and towards the redistribution of power, property and wealth. The capability of this Establishment -- and of its constitutive parts -- to resist 'restructuring'; 'unravelling' and redistributive measures and to put their case in (seemingly) convincing ideological and 'value' arguments -- and by way of relentless but sophisticated propaganda -- should not be underestimated. While the argument of this Establishment that restructuring measures with unnecessary disruptive effects should be avoided, have merit, the restructuring of property and power relations can, however, not be evaded [en route] towards a New South Africa. Although all the power relations cannot be changed over the short period without disruptive effects, it cannot be disputed that we will not 'arrive' in a democratic and post-apartheid South Africa if the political power relations are not changed in the short term and if processes to change the rest of the power relations over the long run are not set into motion in a satisfactory manner. (See section 7 below).

The inequality in opportunities, income and consumption available for the different population groups is a matter that needs even more immediate and urgent attention. The interracial inequalities in the distribution of income and opportunities is reflected vividly in Table 2. In 1990 the

per capita personal income of the whites was R18,881 against the R2243 of the blacks -- i.e. the per capita personal income of whites were more than eight times higher. While the social spending in per capita terms was R2098 on whites in 1990, it was only R566 on blacks -- i.e. 3,7 times higher on whites than on blacks.@13@ The social spending on the different population groups has in the past been much more unequal than what it is at present. Presently the government's spending is four times more on White school pupils than on Blacks. In 1970 it spent twenty times more on Whites than on Blacks! Old-age pensions for Whites are at present 1,4 times higher than for Blacks. In 1970 it was 7,5 times higher. We should not underestimate the long term cumulative effect of unequal racial social spendings. The lower productivity and the lower income earning capacity of blacks are to a large degree the result of discriminatory social spendings over many decades.@14@

It is estimated that 42 per cent of the South African households are living in poverty, i.e. they are living below the Minimum Living Level which is described as the minimum income required for subsistence in the short-term. In total numbers the people living in poverty (as opposed to households) have increased from 15,5 million in 1985 to 17,1 million in 1990. If an annual growth rate of 2,5 per cent could be maintained until 1995, the total number would still increase to 18,4 million in 1995 or (in all probability) to more than 20 million if a lower growth rate is maintained. The incidence of poverty is enormous among rural black communities. In 1985 no less than 84 per cent of the households in the homelands were living in poverty. It has declined to 82,6 per cent in 1990.@15@

Job scarcity, or the percentage of the labour force without formal sector employment, increased from 22 per cent in 1950 to almost 25 per cent in 1972 and to 42 per cent in 1990. The high percentage of households living in poverty and the high percentage of job scarcity must be seen against the background of the poor performance of South Africa since the early 1970s. Overall economic performance as measured in terms of real economic growth and employment during the post-war period may be divided into two sharply contrasting periods: the period up to the early 1970s (characterised by a generally very satisfactory performance), and the period from the early 1970s to the present (characterised by a generally very poor performance). During the period 1947 to 1974 the average annual increase in real GDP was 4,9 per cent, whereas the comparable figure for the period 1975 to 1988 amounted to only 1,9 per cent. Employment in the formal sector reflects, as may be expected, a similar pattern: 2,6 per cent growth in the period 1947-1974 followed by 1,0 per cent growth in the 1975-1988 period.@16@

The sharp increase in the percentage of households living in poverty and in the percentage of job scarcity is

13) Van der Berg, S., 'Prospects for Redistribution of primary and secondary income in the transition to democracy', paper to the Biennial Conference of the Economic Society of South Afcrica, Stellenbosch, 2-3 October, 1991.
14) #Fast facts#, South African Institute of Race Relations, Number 3, April 1991.

15) Simkins, Charles, Urban Foundation Survey as quoted by the Sunday Times, Sept. 22, 1991.
16) Smit, B.W., 'Structural Trends in South African Macroeconomic data', Department of Economics, University of Stellenbosch, 1990.

not only a function of the low rate of economic growth. The low growth of employment in the formal sector is also the result of the considerable capital deepening that has taken place in the South African economy since 1960. This capital deepening has not only weakened the employment creating capacity of the economy and intensified the poverty situation, but also increased the economy's dependency on foreign investment. The sharp increase in the capital/labour relation is partly the result of technological developments (derived from Western countries) and partly the result of apartheid measures with the intention to create a 'white' economy independent of black labour.

A large part of the households living in poverty and a large part of those that cannot attain formal sector employment are blacks and belong mostly to the same households. For all practical purposes the black population can be divided into almost equal halves, i.e. between the so-called Insiders and Outsiders. The Insiders are, broadly spoken, those belonging to households with incomes above the Minimum Living Levels and with formal sector employment. The Outsiders are those living in poverty and without formal sector employment and usually also without houses and without adequate health services. The Insiders' and the Outsiders' socio-economic position has been differently affected by the poor economic performance during the last almost 20 years. Since the early seventies the real per capita income of the Insiders has improved considerably due to the rather sharp increase of black wages since 1973. The real income of the Outsiders has, however, deteriorated markedly. Given the power structures in the society at large -- and the lack of organisation in the ranks of the Outsiders -- a relatively large part of the 'creeping poverty' of the last two decades have -- so to speak -- been 'shifted' onto them. The poverty problem in South Africa has, therefore, become the problem of black (widely defined) Outsiders. They have become a 'forgotten' and 'frozen' 40 per cent. They are not only 'outsiders'economically, but they are more or less 'doomed' to remain social 'outsiders' and perhaps also political 'outsiders'. The sharp divide in black circles between the lower middle class (or petit bourgeois) Insiders and the 'frozen in poverty' Outsiders is destined to have important political ramifications in the years ahead. It is also destined to complicate the trade-off between growth and equity enormously.

<<5. Economic growth and the dependency on foreign investment>>

A characteristic of the South African economy that will exercise a decisive influence on the trade-off between growth and equity, is the large dependency of the economy on foreign investment to maintain a high economic growth rate. In the period since the second world war foreign investment played an important role in South Africa's growth performance. A net foreign investment inflow was registered in 24 of the first 31 years up to 1976. Table 1 gives a clear indication of the influence foreign capital flows exerted on South Africa's macroeconomic performance in the period after the Second World War. (See table 1.)@17@

17) Smit, B.W., 'Foreign capital flows and economic growth in South Africa', paper presented to the Biennial Conference

During the period when a growth rate of 4,6 per cent was maintained, 13,5 per cent of Gross Domestic Investment was financed by foreign investment. When foreign investment started to decline after 1976, the growth rate declined to 2,7 per cent. Due to the large-scale disinvestment since 1985, the growth rate declined to only 1 per cent and real Gross Domestic fixed investment declined by -2,9 per cent annually in the period 1985-1990.@18@

Any attempt to determine the 'capital flight' from South Africa since 1970 encounters difficult statistical problems. Smit and Mocke used mainly IMF statistics in their estimate of capital flight. According to their estimate the outflow of capital since 1970 may be as high as $23 billion.@19@

The close correlation between the outflow of foreign investment and the poor economic performance of the South African economy indicates that South Africa has become 'trapped' in a kind of 'vicious circle'. The outflow of foreign investment due to political considerations causes a lower growth rate and the lower growth rate is in its turn responsible for a poor perception of the future growth capacity of the economy. The resulting 'creeping poverty' is one of the causes of political instability and of the chronic violence. These developments make South Africa a less attractive investment field.

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of the Economic Society of S.A., Stellenbosch, 2-3 October, 1991.
18) Ibid.
19) Smit, B.W. and Mocke, B.A., (1991), 'Capital flight from South Africa: Magnitude and Causes', ~South African Journal of Economics~, Vol. 59(2), 1991, pp. 101-117.

Ironically enough, the South African economy has become -- during two decades of international sanctions, disinvestment and a low growth rate -- not less but much more dependent on a large inflow of foreign capital to maintain a growth rate of (say) 5 per cent annually. In the post 1970s considerable capital deepening has taken place while net savings have dropped sharply since the end of the 1970s. During the period 1960 to 1978 net savings expressed as a percentage of GDP was fairly stable. It fluctuated at an average level of 13,5 per cent. During the period 1982-1988 it declined to the low level of 7,5 per cent.

To determine the foreign capital flow requirement to attain a 5 per cent growth rate per annum during the 1990s, Smit built a model based on certain assumptions. He assumed that the incremental capital/output ratio will be 3,2 and that the net savings ratio will be 6,8 per cent. These were the values of both ratios obtained during 1985-1990. At constant 1990 prices and at the R/$ exchange rate of 1990, the foreign capital needed to attain a 5 per cent economic growth rate per annum in the 1990s is estimated at $11 billion annually. To attain a 4 per cent growth rate per annum the foreign capital needed will be $7 billion. If net savings can be increased to 12,6 per cent of GDP (as has been the case earlier) only $4,1 billion foreign investment will be needed to attain a 5 per cent growth rate. It is however unlikely to increase savings to that level during the 1990s.@20@

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20) Smit, B.W., 1991, pp. 17-24.

To what extent this kind of foreign investment will be available during the 1990s is of course difficult to determine. We are living in a capital scarce world mainly because the United State of America has become a debt country and because of the higher demand for foreign investment of Eastern European countries and the Soviet Union. The international debt crisis also led to an almost complete cutback in commercial bank lending to developing countries. Net commercial bank lending declined from $30,8 billion in 1980 to an annual average of $0,9 billion during the years 1987 to 1989 (I.M.F. Survey, September 1991:39).

From a domestic point of view, South Africa will only succeed to invite the needed foreign capital if a high degree of political and social stability can be maintained. This presupposes that the uncertainties surrounding a successful transformation to a stable new political dispensation should be removed effectively.@21@

Apart from political and social stability, it will also be necessary to improve South Africa's economic performance substantially before large-scale private foreign investment will be forthcoming. It should be appreciated that South Africa is in an awkward Catch 22 situation as far as the inflow of foreign investment is concerned. The South African economy needs a large inflow of foreign investment to improve its economic performance substantially. But to create conditions attractive enough to invite the needed large inflow of foreign investment, the country's future

21) See Smit, B.W., 1991, p. 11.

economic prospects must first be improved quite dramatically.

<<6. Equity with growth over the long run>>

If the sharp inequalities in the distribution of property, opportunities and income between the racial groups were taken into account together with the poor growth performance of the South African economy since 1974, it is axiomatic that it will only be possible to improve the living standards of all -- and especially black -- households over the long run if a relatively high growth can be maintained uninterruptedly for ten or more years. The 'trickle-down' effect from higher economic growth will -- for quite a long period of time -- be too small to attain the needed improvement in the income of the poor and the unemployed i.e. the income of the so-called Outsiders. Even if a high growth rate can be attained it would be necessary to complement it with redistributive measures especially in the form of increased social spending on blacks to improve their socio-economic position and in the form of poverty relief programmes aimed at the Outsiders.

S. van der Berg recently made a calculation about the prospects of eliminating some of the inequalities in the interracial distribution of personal income through redistribution measures if a growth rate of 4 per cent per annum can be maintained during the 1990s.@22@ (See table 2.)

If a 4 per cent per annum growth rate can be maintained in the 1990s the blacks will benefit more than the other population groups because they will benefit more from the

22) Van der Berg, S, op cit.

additional formal sector job opportunities. In section 1 (table 2) it is indicated that the personal income of the whites will increase from R93,6 billion to R117,2 billion while the personal income of the blacks will increase from R62,9 billion to R113,4 billion. The blacks' share in personal income will improve from 35,4 per cent to 43,1 per cent (section 2). The per capita income of blacks as a percentage of white levels will improve from 11,9 to 14,1 (section 4). From section 5 to section 9 the effect of increased social spending on blacks is analysed.

It is supposed that the social spending on whites, coloureds and Indians will be maintained at the same amounts as in 1990. It is also supposed that social spending will be increased to 15 per cent of GDP and that all the additional funds -- i.e. because of the growth rate of 4 per cent and because of the increase in social spending to 15 per cent of GDP -- will be spent on blacks. If social spending is increased from its present level of more or less 12 to 15 per cent of GDP, the total tax burden as a percentage of GDP will have to be increased from 25 per cent to 28 per cent -- or with less if the government's spending priorities can be adapted. (A wealth tax at a very low percentage on all wealth higher than (say) R200,0000 can be considered to raise the needed tax revenue for the increased social spending on blacks).

The increased social spending on blacks, will increase actual spending on them from R16 billion in 1990 to R35,2 billion in 2000 (section 5). Per capita social spending on whites will decrease from R2098 to R1953 while on blacks it will increase from R566 to R945 (section 6). As a percentage of per capita social spending on whites, the per capita social spending on blacks will increase from 27 to 48 (section 7). The personal income plus social spending per capita for whites will increase from R20,978 to R23,554, while for blacks it will increase from R2809 to R3989 (section 8). The effective increase in the living standards of whites will therefore be 12,3 per cent and for blacks 42 per cent. An improvement of this magnitude will undoubtedly be quite substantial. The per capita personal income plus social spending of blacks as a percentage of white levels will improve from 13,4 to 16,9 (section 9).

Although the forecast in table 2 is very hypothetical it gives a clear indication of what #can# be accomplished if a 4 per cent growth rate can be maintained and if it can be complemented with increased redistributional spendings in favour of blacks. A meaningful aspect of the forecast is that the per capita living standards of all four population groups will increase and that none of the groups will be impoverished to improve the position of another group. It should however be emphasized that a 4 per cent growth rate per annum in the 1990s can only be attained if an influx of $7 billion foreign investment can take place annually.

<<7. Moving the economy onto a higher growth path through (political) equity and stability>>

One of the most pressing issues during the period of negotiation and of transition towards a non-racial and (hopefully) democratic post-apartheid South Africa will be how the economy can be moved onto a higher growth path. As

we have shown in the previous section, a growth rate of 4 per cent per annum complemented with increased social spending on blacks, can bring about a substantial improvement in their living standards. But the nagging question that remains is what it will take to move the economy onto such a growth path and to maintain it at that level.

In the rather intense debate on growth and redistribution that has developed since the beginning of 1990, we can distinguish a rather sharp polarisation on the policy strategies suggested by those on the left and those on the right of the 'Great Divide'. While the Liberationists on the left are in favour of one or other form of 'growth through redistribution', those on the side of the Establishment are in favour of 'redistribution through growth'

The possibility of growth through redistribution emerges in the literature in basically three variants: demand redistribution to stimulate employment; policies which have been termed 'macroeconomic populism'; and writing about inward industrialisation as a 'kickstart' for growth. @23@ As far as the first variant is concerned, McGrath alleged that 'empirical evidence ... shows that increased demand resulting from redistribution to the poor is unlikely to be a major stimulus to economic growth'.@24@ Moll is of the opinion that 'the crucial problem with the "redistribute

23) See McGrath, M.D. #Growth and Income Distribution: Appropriate Policy Responses in an Era of Political Change#, paper presented to the Biennial Conference of the Economic Society of South Africa at Stellenbosch University, October 1991, p. 12.
24) Ibid., p. 13.

now, grow later" approach is that the growth equity trade-off may be strong if the method of redistribution chosen carries within it the seeds of a low long-run investment rate, a slow rate of increase in productivity or some other type of direct damage to growth' as has been the case in several developing countries.@25@

Both McGrath and Moll rejects ' macroeconomic populism' because it overlooks the crucially important role of the balance of payment and because it boils down to a denial of trade-offs. Such policies also involve an extension of state control in the economy without proper consideration for the question of efficiency.@26@

While inward industrialisation can be beneficial for creating employment and providing housing, it can only have the desired effect on the growth rate if it is implemented as a massive 'kickstart'. But as a massive programme it will, in all probability, disturb the macroeconomic balance unless a large inflow of foreign capital can take place.

The approach of 'redistribution with growth' is very popular in Establishment circles. It is normally accompanied by an almost dogmatic plea for an unbridled freemarket economy and a threat to disinvest by South African corporations if a new government is too strongly inclined towards redistribution. A good example of this approach was put forward in a publication of the South African Chamber of Business' in 1990.@27@

25) Moll, Terence, 'Macroeconomic redistributive packages in developing countries' in ~Redistribution~, edited by Moll, Nattrass & Loots, p. 31.
26) Ibid., p. 13.
27) 'It is clear that the problems of poverty and inequality in South Africa can #only# be dealt with in the context of a

Another characteristic of the 'redistribution through growth' approach is that its proponents are inclined to suppose that it will be relatively easy for the government and the Liberationists to agree on a new constitutional dispensation, that social stability will then be restored and that it will then also be easy to invite the necessary foreign investment to South Africa. In Establishment circles it is also being regarded as desirable (and possible) to convince the Liberationists that the initial pace of redistributive expenditure ought to be slowed down for say the first 5 years of economic growth, to decrease the strain and demands on the balance of payments. For the Establishment to view the transition in these optimistic terms, is rather naive.

Those in favour of 'grow first, redistribute later' are creating the impression that they are underestimating the predicament and the plight of the poor - especially of the Outsiders living in rural areas and in squatter camps. It is indeed astonishing how undeveloped the consciousness in (white) Establishment circles are about the untenability of the sharp contrast between - what the Liberationists conceive to be - undeserved (mainly white) wealth and undeserved (mainly black) poverty and deprivation.

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growing economy ... However, for the economy to do its job, existing rights to the ownership of productive assets and to their management must not be threatened... Above all, the overall need for rapid economic growth and the possible impediment to growth by redistributive effort must be considered ... (otherwise) ... the business community will obviously begin to reconsider its willingness to continue to operate and invest in South Africa'. Economic options for South Africa, SACOB, Sept. 1990.

The South African economy is at present in a very precarious state of affairs. After almost two decades of low growth, international isolation and internal turmoil and after two years of attempted negotiations, the situation remains uncertain and unpredictable to such a degree that it is almost impossible to predict a firm trade-off relationship between equity and growth. In these circumstances any attempt to give a clear-cut answer to what will be an adequate policy approach to move the economy onto a higher growth path, runs into a multitude of uncertainties and imponderables. It is presently much easier to highlight the circumstances that will #not# be attractive enough to invite the needed foreign investment and will also #not# be conducive to moving the economy onto a higher growth path.

The cluster of factors that are still militating against a movement onto a higher growth path, is mutually interdependent in the sense that they reinforce each other in the negative effect they are exerting on a potential revival of the economy. For our purposes it will be sufficient to concentrate on three negative factors.

A first negative factor is the on-going black violence. It is generally acknowledged that as long as the black-on-black violence continues, it will be almost impossible to restore the necessary investment confidence - especially from an international point of view - in the South African economy. The reasons for the violence are complex. Its main cause may be ethnic rivalry in the run-up to constitutional negotiations and in this sense it can be regarded as part and parcel of the group conflict that has

already for centuries been an endemic component of the deeply divided South African society. But the violence is also poverty related and reflects the high degree of criminality and the low esteem for authority that has developed in mainly the black community during the decades of (illegitimate) apartheid domination.

A second negative factor is the sharp polerisation -- and the consequential confrontational style -- that has developed since the beginning of 1991 between the Establishment and the Liberationists. During 1990 the 'talks about talks' between the two senior partners -- i.e. the government and the ANC -- were conducted in an atmosphere of mutual trust. There were then reasons to be optimistic that the relationship between the two senior partners will develop into the kind of partnership needed for agreement about a future constitutional dispensation. Unfortunately the relationship between the two senior partners -- and between the broader Establishment and the Liberationists -- has in the meantime deteriorated into an antagonistic one. The possibility of a partnership has turned into open antagonism and into an escalating mud-slinging game that promises nothing but misfortune for the future. At a time when we could have expected that the senior partners would have conducted 'negotiation politics' to prepare the atmosphere for constructive negotiations, the process got derailed into a relentless 'election campaign' as if a new constitution is already in place. The rivalry between the Establishment and the Liberationists runs the danger to escalate -- in the absence of an institutional framework or constitution to discipline the rivalry -- into an open 'warfare' with devastating results.

The confrontation between the Establishment and the Liberationists originated not only from conflicting interests, but also from opposing ideological orientations. Spokesmen of the Establishment never tire to emphasize the virtues of the freemarket and the importance of phenomena like growth, efficiency, experience, accountability, responsibility and legality. On the other hand, spokesmen of the Liberationists stress the injustices and the exploitative nature of apartheid, the ugly remnants of apartheid, the lack of legitimacy of the political and economic systems, while making endless pleas for restitution, reparation and even for measures to bring about a radical redistribution of property, income and control. While the Establishment runs the danger of making a fetish of efficiency to protect their large vested interests, the Liberationists run the danger that their obsession to eliminate the ugly legacy of apartheid with a 'quick-fix',can do irreparable harm to the economy. While the (affluent and powerful) Establishment put itself ideologically and emotionally on the side of 'growth' and 'efficiency' the (deprived and disempowered) Liberationists put themselves ideologically and emotionally on the side of 'equity' and 'morality'. The conflict between growth and equity can therefore hardly be sharper than what it is presently in South Africa.

A third and ostensibly the most important negative factor that is complicating the transitional process, is

that the struggle between the Establishment and the Liberationists is in fact a relentless struggle for power -- not only political power but also for bureaucratic, organisational, economic and media (or propaganda) power. The stakes in this power struggle are enormously high. The struggle is taking place between two clearly defined -- but differently organised -- power blocks. As we pointed out above, the power of the Establishment is based on the concentration of power, property and control in the hands of the government, the bureaucracy (including the securocracy), the corporate sector (with its strong international linkages) and the media. This power block -- and the 'compact of power' that is underpinning it -- is, from an organisational point of view, extremely well integrated and very efficient. The Liberationists, on the other hand, is to a large extent a potential, rather than a real power block. It is poorly organised and its potential power is based on the prospect of large electoral support (in a democratic election) and on its demands for justice, morality and democracy. While the past and the present belongs to the Establishment, the future (and the sympathy of the international community) is on the side of the Liberationists. As long as the Establishment approaches the negotiations with a 'double agenda' in an attempt to find a constitutional 'solution' that will enable it to perpetuate (as fully as possible) its grip on the levers of power, it will remain almost impossible to promote stability and to create conditions conducive to move the economy onto a higher growth path. On the other hand, it will also be unlikely to create such conditions if the Liberationists remain adamant in their emotional claim of an immediate and almost total transfer of power that will enable them to bring about a radical redistribution of property, income and control.

In the abnormal circumstances presently prevailing in South Africa, it has become -- from the point of view of the Political Economy -- necessary to acknowledge that it is of little avail to concentrate on the (socio-economic) trade-off between #equity# and #growth# without taking the broader transformation process into full consideration. The abnormality of the prevailing circumstances can be attributed to the multitude of inequalities, the depressed state of the economy, the perpetuation of sanctions, the endemic violence and group conflict and the confrontational style of the power struggle. As long as these abnormal circumstances prevail, the trade-off between equity and growth will in all probability remain #subordinated# (and dependent) on the more comprehensive trade-off between the #redistribution of power (broadly defined) and economic growth#. In terms of this broader trade-off, it will only be possible to create conditions conducive to economic growth if greater 'equity' and/or 'fairness' can be attained in the distribution of effective power between the Establishment and the Liberationists. This implies that the Establishment should be prepared to sacrifice a considerable portion of its power and that it should also be prepared to accept the unravelling of the 'compact of power' as inevitable.

It is not possible to prescribe a clear-cut 'formula' about how power -- in all its manifestations -- should be 'distributed' between the power blocks to succeed in stabilising the situation and in bringing about 'equity' and 'fairness' in the relationship between the Establishment and the Liberationists. It is, however, rather obvious that a constitutionally entrenched 'sharing' of political power between the National party and parties from the liberation movements according to a formula that will enable the NP to play a dominating and/or a veto role in the future dispensation, will not succeed to bring about the needed 'equity' and 'fairness' in the distribution of power. (A voluntary coalition of which the NP is a part, is of course something of a completely different nature and may be desirable in the transitional period). It can be stated with great assertiveness that as long as an 'equitable' and 'fair' distribution of power (and especially political power) remains in abeyence, that the general atmosphere in South Africa will continue to militate against moving the economy onto a higher growth path. In such an eventuality the relative economic stagnation, mass unemployment, social instability and violence will in all probability continue.

A rather discouraging characteristic of both the economic and political power centres in the 'compact of power', is that none of them have had any opportunity to develop the 'art' of sacrificing wealth and/or power. During their high days of colonialism and apartheid, both became spoiled in the 'art' of 'taking' and 'accumulating' wealth and/or power. We, therefore, have reason to fear that these two centres of power -- and also the bureaucracy and the media -- will not be inclined to make the sacrifices needed for a 'fair' distribution of power #en route# a new and sustainable constitutional settlement.

The struggle for wealth and power between the two power blocks has got locked into a stalemate situation with negative consequences for social stability and economic growth. Both the Establishment and the Liberationists must take full responsibility for their own contribution to the negative effects the struggle for wealth and power have exerted on the economy's performance. It is to no avail for the Establishment to try to blame the Liberationists for the relative economic stagnation or vice versa. The 'clinging' to undeserved wealth and power by the Establishment on the one hand, and the 'sanctionering' strategy of the Liberationists on the other hand, must both be blamed for South Africa's poor economic performance during the last decade or two. On the question who is to be blamed for South Africa's poor economic performance, the pot cannot call the kettle black.

What can be done to break this stalemate in the struggle for power? As long as almost all the #effective# (or operational) power remains concentrated and monopolised in the hands of the Establishment -- and in the hands of the four constitutive parts in the 'compact of power' -- it seems reasonable to expect that the Establishment should shoulder the greatest part of the responsibility and should take the initiative for ending the stalemate situation. One method that has not been explored until now, is for the

Establishment -- and its four constitutive parts -- to acknowledge explicitly the truth about the exploitative nature of apartheid in all its manifestations and to commit itself towards immediate and comprehensive restitution in an attempt to eliminate some of the worst legacies of apartheid and to do something imaginative about the sorry plight of the Outsiders. The government should introduce a poverty relief programme to compensate the worst legacies of apartheid as a clear demonstration that it realises that reform cannot succeed without visible compassion with the plight of those that suffered the most under apartheid. The symbolic value of such an acknowledgement, of such a commitment and of such a relief programme, should not be underestimated. As a concrete demonstration towards greater 'equity' and 'fairness' -- and as a clear manifestation of sincerity and preparedness from the side of the Establishment to make visible sacrifices -- such a policy approach can also prove to be instrumental for creating the mutual trust, the reconciliation and the stability needed to succeed with the delicate negotiations about the 'distribution of power'. (Given the need for substantial and visible advancement towards redistribution on behalf of the desperate poor, it was rather inconsiderate of the government to introduce Value Added Tax with its regressive effect on the distribution of income and even more inconsiderate of the government to justify its introduction in the name of 'a broadening of the tax base')

The Establishment ought to go out of its way to re-educate and to persuade its relatively affluent supporters that they have no choice but to make a relatively large sacrifice in terms of wealth, income and consumption to enable the government to improve the living standards of the poor and the deprived majority. Alternatively the Establishment can tell its supporters that they have the choice either to lower their living standards #voluntarily# on behalf of a peaceful transition towards a sustainable post-apartheid South Africa, or they must be content with an #enforced# lowering of their living standards because of a continuation (and a possible acceleration) of the downward slide in the economy due to the unpreparedness of the Establishment and its supporters to make the sacrifices needed for reconciliation and for a peaceful transition. But instead of re-educating the privileged and relatively wealthy part of the population about the painfulness of the transition, the popular 'wisdom' deliberately propagated by the Establishment, is that a New South Africa (in which the NP will still play a dominating role) will become a win-win country where nobody will lose and everyone will win. Although this may be possible over the long run, -- if an 'equitable' and 'just' system can be agreed upon -- it is rather irresponsible of the leader core of the Establishment not to tell those whose privileged position was derived and entrenched by apartheid that it would be costly for them to 'trade' the apartheid South Africa for a New -- and hopefully better -- South Africa.

While asking sacrifices from the Establishment, the Liberationists, in turn, should be prepared to be tolerant and patient before the 'full' advantages of the New South

Africa can materialise for them. Rome was not built in a day. The broader trade-off between the distribution of power and economic growth will demand sacrifices from the privileged minority, while it will be time-consuming from the point of view of the deprived majority.

The sooner the Establishment and the Liberationists realise that a 'fair' and 'equitable' political and constitutional solution -- and the reconciliation on which it should be based -- is a ~sine qua non~ to move the economy onto a higher growth path, the better.

The trade-off challenge now facing the Establishment and the Liberationists can be reduced to the following three questions: Can the Establishment -- and its four constitutive parts -- display the necessary responsibility and vision (or telescopic capability) to sacrifice the necessary amount of power and wealth in the short term, in the expectance of a more democratic, a more equitable and a more prosperous South Africa in a decade or two's time? Can the Liberationists display the necessary responsibility and tolerance to use newly attained power with the necessary moderation and with the needed respect for efficiency and rationality to create conditions attractive enough for entrepreneurship and to invite the foreign investment needed? Can we succeed with a 'mix' of capitalism and democracy, 'to put some rationality into equality and some humanity into efficiency'?

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<Table 1>
Foreign capital flows and economic performance

	Foreign financing of Gross Domestic Investment (average %)	Real Gross Domestic Product (average annual % change)	Real Gross Domestic Fixed Investment (average annual % change
1946-76	13,5	4,6	6,5
1977-84	3,3	2,7	1,5
1985-90	-12,7	1,0	-2,9

Source: Smit, B.W., 1991.

<Table 2>
Interracial income distribution, 1990 and forecast for 2000 without and with increased social spending on blacks.

SECTIONS	WHITE	COLOURED	INDIAN	BLACKS	TOTAL
1) Personal income (R-1990 billions)					
1990	93,6	15,0	6,3	62,9	177,8
2000 (growth 4% p.a.)	117,2	23,3	9,2	113,4	263,1
2) Distribution of personal income					
1990	52,6	8,4%	3,6%	35,4%	100%
2000 (growth 4% per annum)	44,6%	8,8%	3,5%	43,1%	100%
3) Per capita- income (R-1990)					
1990	18881	4697	6620	2243	4788
2000 (growth % p.a.)	21601	6148	8204	3044	5529
4) Per capita income ratios (% of white levels)					
1990	100	24,9	35,1	11,9	
2000 (growth % p.a.)	100	28,5	38,0	14,1	
5) Social spending (R-billion)					
1990	10,6	4,2	1,2	16,0	32,0
2000 (15% of GDP)	10,6	4,2	1,2	35,2	59,2
6) Social spending per capita (1990-R)					
1990	2098	1295	1227	566	853
2000	1953	1110	1069	945	1244
7) Social spending per capita (ratios)					
1990	100	61,7	85,5	27,0	
2000	100	56,8	54,7	48,0	
8) Personal income plus social spending per capita (Rands)					
1990	20978	5992	7847	2809	5641
2000	23554	7258	9273	3989	6773
9) Per capita personal income plus social spending (ratios)					
1990	100	28,6	37,4	13,4	
2000	100	30,8	39,4	16,9	

Source: Servaas van der Berg, op. cit.

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