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POLITICAL ECONOMY

AND

SOCIAL WELFARE

WITH AN APPLICATION ON SOUTH AFRICA

by

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POLITICAL ECONOMY AND SOCIAL WELFARE - WITH AN APPLICATION
ON SOUTH AFRICA
AN ACCOUNT¹⁾

This book is concerned with wealth and poverty. It is concerned with the clash between the values of civilisations separated from each other by centuries of development. It is also concerned with the structural problems of economic and political instability caused by this clash. It represents an attempt to bestow a definition on social welfare that hopefully will be more applicable to the mainly Third World situation of South Africa than the current views propagated as the true gospel by the mainly Neo-classically trained economist. From the viewpoint of Political Economy, this book also attempts to make a plea for grand scale reform and to focus on its inevitable implications.

This book is not only aimed at colleagues and students, but also at the general public. Part I and Part III is written in a simple idiom and technical jargon is purposely avoided. These two parts (which embrace more than half the book) are reasonably complete in itself and is concerned with the South African problems. Some of the controversial views in Part III (i.e. controversial in terms of the Neo-classical or Freemarketeer orthodoxy) as well as the substantial meaning that I bestow on social welfare and on trade-off relations, are discussed in detail in Part II. The theoretical and philosophical views of representative authors in Political Economy are analysed to support my point of view. A certain knowledge of Political Economy and/or other social sciences are probably a precondition to read this part with ease.

During my student years I developed an interest in questions about the true meaning of wealth and welfare. Is Political Economy mainly concerned with wealth or with welfare? And with which one of the two ought it be concerned? My dissertation

1) Preface of a book by S J Terreblanche to be published in Afrikaans by Academica, Human & Rousseau, in July 1986.

for a masters degree as well as my thesis for a doctorate had these problems as theme.

At the beginning of the seventies I published two books in which I tried to show that a high rate of economic growth and greater wealth are not necessarily a solution for South Africa's economic, and mainly its poverty, problems. I argued that a redistribution of income and a re-alignment of priorities are also necessary. Although these books have had a certain applicability, they were crippled by a serious defect. I did not at that stage evaluate correctly the structural relationship between white wealth and power on the one hand, and black poverty and deprivation on the other hand. I was then mainly concerned with the detrimental consequences of the sharp differences between wealth and poverty. I did not only neglect the real causes of these differences, but also the part played by apartheid - in both its economic and political dimensions ⁱⁿ aggravating South Africa's economic problems.

During the seventies I was, as a full-time member, involved in the activities of the Theron Commission for a period of three years. During these years my interest in the phenomenon of chronic community poverty in the lower socio-economical ranks of the Coloured community was awakened. In a chapter in the Report I tried to account for its structural causes. Membership of other committees at a later date exposed me to the problems of black poverty and urban squatting. These experiences convinced me that Political Economy must not in the first instance - at least not in a country like South Africa - be concerned with wealth, with traditional economic growth and with the (ideal) working of the (alleged) free market economy. It must rather be concerned with (social) welfare and the satisfaction of basic needs.

The main theme in this book is the aggregate welfare of the total population (of 32 million) of South Africa. The thesis I try to defend is that any programme to promote the aggregate welfare adequately is at present severely hampered by structural maladjustments, serious stability problems, the lack of equal freedoms and by deepseated differences in values and

civilisation patterns. The "rules of the game" and "the playing grounds" will have to be changed fundamentally to create social, economic and political structures and a new attitude to life in South Africa that hopefully will be effective in promoting the aggregate welfare of the total population in a satisfactory way.

We have to realise that because of the nature and extent of South Africa's poverty problems, they cannot be "solved" or "mitigated" by traditional or Western orientated economic growth and traditional measures to redistribute income. Poverty must, however, be recognised as extremely relevant to welfare matters, especially in a country in which such a small percentage of the population is relatively wealthy whereas the great mass is relatively poor and where income differences correlate as closely with colour and ethnic classifications as is the case in South Africa. Poverty in South Africa is thus a problem that can only be addressed in a meaningful and permanent way if reformed structures and attitudes can generate adequate new opportunities for appropriate economic growth and if other welfare creating activities can involve the majority of the population. Ironically enough, the poverty syndrome may become even worse if the rich man's cult is nourished and allowed to flourish as is the case at present.

The question about the meaning and the implications of a process of structural reform, is a relatively neglected matter in South Africa. I published a book in 1980 on Die Wording van die Westerse Ekonomie in which I tried to make an analysis of the different structural changes Western countries had already experienced. The history of these countries shows that all countries had to evolve from time to time - as part of a long term process of socio-economic development - through phases of fundamental and painful structural changes. Time and again these changes carried the danger of a degeneration into chaotic violence.

This study, and the sharpened perceptions of historic patterns it fostered, convinced me that the structural changes South Africa had to experience in the next decade or two, actually

ought to have taken place in the second or third decades after the Second World War. A special current of events - mainly connected with apartheid - delayed these structural changes in an artificial way to the detriment of the welfare creating capacity of the economy. Strangely enough this artificial situation may have been conducive towards measurable economic growth - at least in the fifties and sixties.

In the next decade or two South Africa will have to carry through the delayed process of structural reform. This process will be part and parcel of the dismantling of apartheid. It will be a very painful and partly disruptive process. The dual danger exists that either an excessive resistance against it, or a too hasty dismantling of apartheid can all too easily lead to a revolutionary derailment.

The spiritual and material sacrifices that mainly the whites will have to make on behalf of unavoidable reforms, is going to be very large, even if the reform happens in a reasonably orderly and evolutionary way. In emphasising these large sacrifices, I find myself in a kind of moral dilemma. Will my emphasis not cause greater white recalcitrance and strengthen reactionary attitudes? But, on the other hand, I cannot keep quiet while mainly the whites remain in the illusionary state of mind that the necessary structural reform - even if it happens in a reasonably orderly way - will leave their positions of privilege and protection relatively untouched!

I can also not remain quiet while the majority of my colleagues persist in using an outdated paradigmatic approach (connected with the "growth" and the freemarket syndromes). Their approach boils down - if not intentionally then unintentionally - to sectionalistic propaganda to maintain the privileged position of the wealthy part of the population. It will be tragic if apartheid is dismantled in accordance with the prescriptions of the Neo-classical economist and only result in a higher growth rate in the modern sector to enable the rich and the very rich to become even richer while it worsens the poverty of the poor. Comprehensive socio-economic and political

structural reform ought to be preceded by a "paradigm switch" in economic thought. Unfortunately the signs of such a "switch" in the ranks of Political Economists are rather inadequate.

In this book I try to say something about social welfare and about the real state of it in South Africa. To what extent I succeed to rid myself of the stereotyped but inappropriate Western orientated views on economic matters only time can tell. Perhaps I only prove once more that I also have Western orientated perceptions, looking at the South African problem through academic glasses cut by Western scholars. But hopefully I succeed at least partially, to "recut" these academic glasses in such a way that it enables me to obtain a sharper and more relevant Third World view of the alarming welfare problems of this unique African country.

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Stellenbosch
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PART I

A DEFINITION OF POLITICAL ECONOMY AND SOCIAL WELFARE

In the first four chapters an attempt is made to formulate simple and straightforward definitions of Political Economy and Social Welfare.

Political Economy makes a study of the activities by which the members of a community try to judiciously use scarce resources for the satisfaction of human needs in order to survive as a community and as members of such a community and - if possible - to experience happiness and/or increase (social) welfare. The definition of social welfare is not easy because it is a multi-dimensional concept. It is, however, central to the economic problem and the main purpose of this publication is to give greater content to this concept.

CHAPTER 1 (10 pages)

This chapter focusses on the problems which have to be solved satisfactorily to ensure the survival not only of the community as a kind of organic unity, but also of its individual members. If a community and its members want to survive, satisfactory solutions must be found for what is commonly called the allocation problem (i.e. what to produce to satisfy the most important needs), the mobilisation problem (i.e. how to recruit and develop the necessary labour and other raw materials), the production problem (i.e. how to minimize waste in the use of production factors), the distribution problem (i.e. how to distribute the final products between the members of the community to give everyone a fair chance to survive) and the stabilisation problem (i.e. how to solve the abovementioned problems in a continuous and uninterrupted manner).

In the long history of the human race enough examples are available of small communities that could not "organise" their economic activities in such a way to ensure that these five problems could be

solved continuously and in such a way that the survival of the community and its members was ensured. Consequently some communities became totally or partially extinct. Economics is thus concerned with the fundamental problems of survival and death. The attainment of happiness and (social) welfare only become possible after the problem of survival has been solved.

CHAPTER 2 (29 pages)

In this chapter different approaches to promote the aggregate happiness or social welfare are considered. When the problem of absolute poverty and absolute scarcity is satisfactorily solved, a community is confronted by the problem of relative scarcity. Any manipulation of either the intensity of needs and/or the availability of goods influences relative scarcity. It therefore also influences the state of social welfare. At least nine approaches to promote (social) welfare by manipulating either the "need" (or demand) side and/or the production (or supply) side of the "scarcity relation" can be distinguished. These approaches can be systematized into three Traditional approaches, three Modern Supply approaches and three Modern Demand approaches.

The three Traditional approaches are the Ascetic approach (those who want to "solve" the scarcity-relation by suppressing needs), the Aristotelian approach (those who regard the quality of needs as of greater importance than the quantity of needs satisfied) and the Calvinistic approach (those who formulate a work ethic and a modest pattern of life).

The three modern production-side approaches can be called the growthmanship, the dictatorial and the Americanistic approaches. The growthmanship approach regards the maintenance of a high economic growth rate as the key to the solution of all economic problems notwithstanding the wealth of a country. It also regards an unbridled freemarket as the economic system most conducive to economic growth. The Dictatorial approach - of which Stalin's five year plans is the best example - also regards a high growth rate as of decisive importance, but wants to attain it through a centrally controlled economy. The Americanistic approach also gives the highest priority to the solution of the production problem but regards a high demand, generated by advertisement and consumerism, as essential to ensure

maximum performance of a market economy. By neglecting the effect of the intensity of needs on relative scarcity, all these approaches are controversial from a social welfare point of view.

The three demand-side approaches can be called the consumer sovereignty, the collective needs and the redistribution approaches. Those economists who emphasise the principle of consumer sovereignty make the valid point that a given GNP can only create maximum welfare if all needs are satisfied in order of preference. It is normally accepted that in a free market the principle of consumer sovereignty is upheld to a satisfactory level as far as particular (or individualistic) needs are concerned. But this is not true of collective needs or needs with a high communal content. Economists like Kenneth Galbraith, for example, criticises the present day mixed capitalist system because it "creates" "public poverty" and "ever-increasing opulence in privately produced goods" at the same time. The Redistribution approach makes the point that it is of little avail, from a (social) welfare point of view, if the principle of consumer sovereignty is upheld and a high growth rate attained but income and opportunities are still distributed unequally.

All nine of the above approaches to promote social welfare have some relevance. The degree of relevance for a specific country is, at any time and place, a function of the stage of economic development, and of the institutional nature of economic activities. Economists ought to be very careful not to be dogmatic about any approach to promote social welfare or to over-emphasise its relative importance.

CHAPTER 3 (15 pages)

In this chapter an attempt is made to formulate in a more systematic way all the elements that are relevant to social welfare and to focus on the mutual relation between these elements. If social welfare is accepted as the ultimate objective of economic activity, then it can be defined in terms of a set of intermediate objectives. Each one of the intermediate objectives can in its turn be defined in terms of at least three minor (or subordinate) objectives leading to a definition of social welfare in terms of at least twelve (minor) objectives.

The four intermediate objectives are

- (i) the growth and efficiency objective,
- (ii) the stability objectives,
- (iii) the distributive or fairness objective, and
- (iv) the civilization objective.

The growth and efficiency objective is concerned with an efficient solution of the production, the mobilisation and the allocation problems. This objective will only be achieved

- (i) to the extent that production efficiency (or efficiency of production) is attained in the application of scarce production factors in every separate unit of production;
- (ii) to the extent that both static and dynamic economic efficiency are attained in recruiting, utilising and developing production factors;
- (iii) to the extent that allocative (or consumer) efficiency is attained in the satisfaction of individual, collective and future needs.

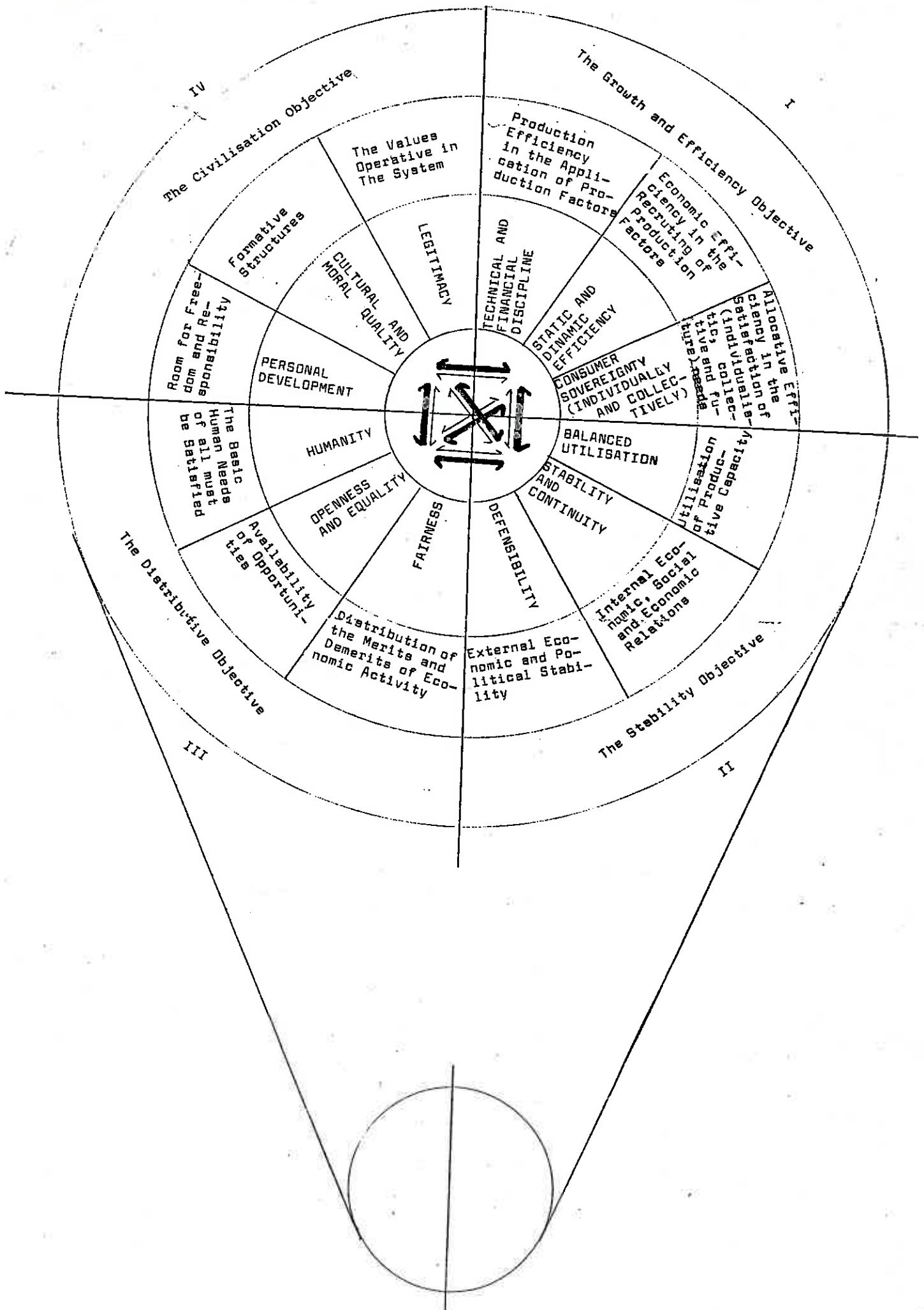
The stability objective will only be achieved

- (i) to the extent that economic activity (and aggregate spending) can be maintained continuously on a relatively high level to ensure a full utilisation of the productive capacity and the maintenance of (relative) full employment;
- (ii) to the extent that a reasonable degree of stability and equilibrium can be maintained in domestic prices and domestic socio-political relations;
- (iii) to the extent that a reasonable degree of security be maintained in foreign relations.

The distribution of fairness objective will only be achieved to a satisfactory level

- (i) to the extent that the material and immaterial benefits and liabilities of economic activity are distributed in a reasonably just manner between the members and the constituent groups in the society;

CONE-SHAPED CLOCKWORK



- (ii) to the extent that opportunities available are reasonably open and accessible to all members and groups in the society;
- (iii) to the extent that the means of existence are distributed in a manner to satisfy the Basic Human Needs of all members of society.

The civilisation objective will only be achieved

- (i) to the extent that freedom and responsibility are available to all individuals to enable the necessary personal development.
- (ii) to the extent to which the society is organised in such a way and the formative structures are of such a nature, that the moral and cultural values and aspirations cultivated in individuals are on a high moral and cultural level.
- (iii) to the extent to which the existing structures and the values institutionalised in it, can be legitimised - i.e. can attain the explicit support of society.

The four intermediate and the twelve minor objectives can be systematised in terms of a cone-shaped clockwork (see Diagram 3.1) with the four intermediate objectives as the four quarters and the twelve minor objectives as the twelve hours. This presentation of all the relevant elements of social welfare enables us to focus in a rather vivid manner on the mutual relation of complement and conflict between the four intermediate objectives. To define the multi-dimensional character of social welfare we can regard the length, the circumference, the weight, the volume and the form (or the "roundness") of the cone in the diagram to represent different dimensions of social welfare.

If the social, political and economic life of a country can be organised in such a way that the correct relative importance or "weight" - from a social welfare point of view - can be given to each of the dimensions or objectives in the diagram, then the relevant activities to promote social welfare will have the result that the cone-shaped clockwork will become longer, its circumference will increase, it will maintain its form (or "roundness") while its volume and weight will

become greater. The cone - or social welfare - will then become "greater" as a perfect or ideal cone in all its dimensions. It is obviously not possible to promote social welfare in such an "ideal" and/or "balanced" way. It none the less remains an ongoing challenge to try to attain it. To approach the "ideal", it would be necessary to organise society in a manner that will emphasize the complementarity in the mutual relationship between the objectives, while the conflicting relationships will have to be eliminated or minimised through appropriate trade-offs. The main focus in Part II is on the mutual relationship of complement and conflict between the objectives relevant to the promotion of social welfare.

CHAPTER 4 (18 pages)

In this chapter a distinction is made between the causal-meganistic and the teleological approaches to Economics. The necessity of organisational and/or structural adaptations and adjustments to enhance the effectiveness or functionality of a political and economic system, is discussed.

PART II

THE MUTUAL RELATIONSHIP OF COMPLEMENT AND CONFLICT BETWEEN OBJECTIVES

This part consists of five relatively long chapters on the trade-off relations between the four intermediate objectives. The growth and efficiency objective is taken as the leitmotiv. In the first two chapters its meaning and its contribution to social welfare is considered. In the next three chapters the trade-off relations between the growth and efficiency objective on the one hand and the stability, the distribution and the civilization objectives on the other hand, are discussed. All five chapters rest rather heavily on the development of economic thought and the reading of it presupposes a certain knowledge of the history of economic thought.

CHAPTER 5 (38 pages)

In this chapter the different kinds of efficiency (see Chapter 3) are discussed. A distinction is made between the meaning of different authors - such as A. Smith, Ricardo, Marx, the Neoclassical school, Pigou and others - have given to efficiency. The degree of economic and allocative efficiency attainable in an imperfect market system is analyzed in rather great detail. The purpose of this chapter is to ascertain the validity of the claims of the Freemarketeers about the efficiency of a free and/or market orientated economic system. The analysis in this chapter leads to the conclusion that a market economy can be instrumental in the attainment of certain kinds of efficiency but often fails dismally in the attainment of other kinds - mainly regarding allocative efficiency in the satisfaction of collective needs. Efficiency considerations are shown to be quite relevant in drawing the line between the private and public sector activities.

CHAPTER 6 (18 pages)

It is normally taken for granted that a high growth rate is directly responsible for a higher level of want satisfaction and is therefore vital to the promotion of social welfare. In this chapter the arguments for and against a so-called growthmanship approach towards social welfare is discussed in detail. Several questions are addressed: Must production be regarded as a good thing per se? Can the scarcity or poverty argument to justify a growthmanship approach to maintain its applicability even if the per capita income becomes relatively high? Can we justify a growthmanship approach with the argument that a high growth rate increases the range of effective choice? If this argument is valid, what about the fact that the market economy is not only a "want-satisfying" mechanism, but has also become a "want-creating" mechanism? Is the revolution of rising aspirations an argument in favour of or against the growthmanship approach? To what extent is it necessary to take the social cost of the growth process into account when social welfare is accepted as the final objective of economic activity?

The answers to these controversial questions are discussed with reference to the viewpoints of a variety of authors on growth and welfare issues. Some of the typical problems related to national accounting and the measurement of the Gross Domestic Product are also discussed.

CHAPTER 7 (32 pages)

This chapter is concerned with the important trade-off relation between the growth and the stability objectives. The main authors on the history of economic thought are classified in two groups - those that take an equilibrium model as starting point and those that regard the relationships in a market economy in terms of a conflict model.

The circumstances that has elevated the objective of a high growth rate to a priority in the decades after the Second World War, are put into the necessary historic perspective. The Harrod-Domar and the (modern) Neo-classical growth theories are discussed. Different approaches to the inflation and stagflation problems get extensive attention. What is the merit of monetarism, the Keynesian approach, the rational expectation and the Post-Keynesian approaches? The works published in the post-war period on the trade-off relation between growth on the one hand and different kinds of stability on the other hand, are so extensive that it is hardly possible to give a complete view of it in a single chapter.

CHAPTER 8 (37 pages)

Arthur Okun published a remarkable little book with the title "Equality and Efficiency - The Big Trade-off" in 1975. He described the trade-off between "equality" and "efficiency" as "our biggest trade-off (because) it plagues us in dozens of dimensions of social policy. We can't have our cake of market efficiency and share it equally". In Chapter 8 the important, but relatively neglected, trade-off relation between growth and efficiency on the one hand and a just distribution of income and opportunities on the other hand,

is discussed in a, hopefully, original manner.

In the first part attention is given to different kinds of poverty and to the popular justification offered for it by a bourgeois community. The arguments of Aristotle, Thomas Aquinas and John Calvin for a more equal distribution of income are discussed. Authors like Quesnay, A. Smith, Ricardo and Marx were all concerned with the conditions for economic growth. All of them put forward different kinds of surplus theories and all tried to justify a certain inequality in the distribution of income as long as it is conducive towards a large surplus and large investments. During the first decades of the twentieth century both Keynes and Pigou put forward strong cases for a more equal distribution of income. Milton Friedman links up with J.B. Clark in employing the marginal productivity theory to make a plea for some inequality in the distribution of income. This approach is sharply criticised by Arthur Okun.

In the recent literature different approaches towards growth and distribution can be distinguished. Some regard a high growth rate as a pre-condition for a more equal distribution of income. Marxian economists regard a high growth rate as the most important cause of an unequal distribution of income. Those that link up with Ricardo regard a rather unequal distribution of income as a pre-condition for a high growth rate, while others regard a temporarily more unequal distribution of income as a pre-condition for a higher growth rate in developing countries. This last approach is strongly criticised by Paul Streeten. Some modern authors who based their approach on Bentham and Pigou make a plea for a more equal but not too equal distribution of income. Others like James Tobin, James Meades and Arthur Okun regard a more equal distribution of opportunities as an indispensable condition for a higher growth rate in the long run.

CHAPTER 9 (34 pages)

In this chapter the complex relationship between the civilization patterns and the growth tendency is analysed. The trade-off between the structure of society on the one hand and the efficiency and growth performance of the economy on the other hand, is perhaps

an even more neglected "trade-off relation" than the one between "efficiency" and "equality". This chapter will in all probability be regarded as even more controversial than the previous one.

Four different approaches towards the relation between the structure of society and civilization on the one hand and growth and efficiency on the other hand, is distinguished in the first part of the chapter. The first one is the traditional approach of Aristotle, F. Quesnay and Adam Smith. This approach regards a certain level of civilization, a social equilibrium and high moral standards as preconditions for successful economic activities. Consequently Political Economy is regarded as a subdivision of Moral Philosophy.

The views of Adam Smith of this relationship are discussed in depth. The popular conception that Smith is the father of the Freemarket approach is discarded. In 1976 several scholarly articles and books were published to commemorate the publication of The Wealth of Nations in 1776. From these publications a new interpretation of Adam Smith emerged. In knowledgable circles it is now accepted that the misconception about Adam Smith resulted from the reading of The Wealth of Nations in isolation without taking note of The Theory of Moral Sentiments (1759). If The Wealth of Nations is read as an extension of The Theory of Moral Sentiments (as A. Smith wanted it to be read) it becomes evident that Smith laid down very strict social, judicial and economic conditions as a prerequisite for the effective operation of his Invisible Hand. It is also important to realise that Smith did not formulate his value theory as a tool to explain the efficient operation of a market economy, but rather to develop a measuring rod to judge the moral actions of the commercial class. It may come as a surprise to many Freemarketeers that Adam Smith was much more interested in morality than in efficiency. [The Marxian determinism represents the second approach to the interrelationship between civilization patterns and economic activity. Marx put his approach in a nutshell: "My inquiry led me to the conclusion that neither legal relations nor political forms could be comprehended whether by themselves or on the basis of a so-called general development of the human mind, but that on the contrary they originate in the material conditions of life, the totality of which Hegel ... embraces within the

term 'civil society' : that the anatomy of the civil society, however, has to be sought in political economy."

The Neo-classical school presented a third approach to the interrelationship between the structure of society and economic performance. This school takes the easy way out by concentrating on so-called universal economic principles or economic laws by assuming the existence of a neutral economic and social structure.

The views of Schumpeter represents the best example of the fourth approach towards this interrelationship. According to him the civilization and social framework of the late nineteenth century created ideal conditions for capitalistic growth: "The steel framework of that structure still consisted of the human material of feudal society and this material still behaved according to precapitalistic patterns" Schumpeter was, however, afraid that the success of the capitalist system may undermine the social institutions which protect it: "In breaking down the precapitalist framework of society, capitalism thus broke not only barriers that impeded its progress but also flying buttresses that prevented its collapse. That process ... was not merely a matter of removing institutional deadwood, but of removing patterns of the capitalist system, symbioses with whom was an essential element of the capitalist scheme."

In the second part of this chapter, the trade-off between a high economic growth rate and freedom is analysed. With this purpose in mind, a distinction is made between "old freedom" and "new freedom". The meaning given to the "old freedom" idea by authors like John Locke, I. Kant, Bentham, J.S. Mill and Herbert Spencer is analysed and compared. "While the "old freedom" centres in freedom from arbitrary power, from oppression, from violation of man's rights, the "new freedom" is the fruit of an environment that takes for granted the blessings it has and broods over those that it lacks ... The old freedom was political. The new freedom branched out into welfare : it seeks to establish the economic right of man." (Wallich, H.C., The Cost of Freedom.) The new freedom is thus closely linked to the rise of the welfare state. It is evident that the trade-off relation

between growth and old freedom is quite different from the trade-off relation between growth and new freedom. While old freedom may have been a condition for growth, a certain level of growth is a precondition for new freedom. When freedom - old and new - is introduced into the equation, the trade-off relation between "efficiency" and "equality" becomes much more complex than was originally thought. It also gives a new perspective on the debate between M. Friedman and A. Okun.

In the last part of this chapter the interrelationship between growth and cultural development is discussed. Shortly before his death in 1946, Lord Keynes proposed a toast before the Royal Economic Society with the following words: "I give you the toast of the Royal Society of Economics and Economists, who are the trustees, not of civilisation but of the possibility of civilisation."

The viewpoints of several authors on the moral and cultural effect of a system based on self-interest were analysed. For example, William Vickrey asks "the searching question of how far our economic system is in its nature and philosophy conducive or otherwise to the moral development of mankind". He admits that there is truth in the allegation that "no system relying so heavily on self-interest for its functioning can possibly bring out the best that man is capable of becoming". But on the other hand it is equally true that "no large-scale high productivity society has yet been successfully operated that has not relied to a large extent on self-interest as an organizing force". Vickrey came to the conclusion that "as yet it is not possible to deny categorically that we may have bought material progress at too high a moral price".

The wellknown American economist Alvin Hansen does not agree! At the end of the 1950's he wrote: "(The American people) have made great advances on the purely economic plane ... Unfortunately the progress we have made in many of the non-economic aspects of life is limited ... We have learned how to make a living, we have still to learn how to live." The issue about the interrelation between culture and growth and between morality and self-interest is still very much an open issue.

PART III

POLITICAL ECONOMY AND SOCIAL WELFARE IN SOUTH AFRICA

In the seven chapters of this part the approach developed in the first two parts are applied to the South African situation in an attempt to determine the level of social welfare in South Africa. As may be expected, I came to the conclusion that ample reason exists for great concern about the level of social welfare in South Africa. The reasons for concern are perhaps even more appalling than is generally acknowledged.

CHAPTER 10 (10 pages)

As shown in chapter 3 it is not sufficient to concentrate only on quantitative factors if we want to establish the level of social welfare in any country. Certain qualitative factors must also be taken into account. To determine the level of social welfare in South Africa, one encounters very difficult problems regarding the qualitative dimensions of social welfare. In the ordinary literature on economics the qualitative dimension is usually neglected. If one wants to take it into account in the South African situation, difficult and controversial value judgements have to be made about the pluralistic composition of the population and each group's value attitudes. One must also award "weights" to the welfare of each of the well-defined population and ethnic groups. To simplify matters, I divided the population in First and Third World people and tried to determine the level and characteristics of the "social welfare" of the people in each of the two "worlds".

We can regard South Africa as a microcosm of the macrocosm of the First and Third Worlds. The populations of the First and the Third Worlds are approximately 800 m, and 2 400 m respectively. As a mainly ex-colonial world the Third World is still part of the so-called Capitalist World System. The First World's (or the North's) population is a quarter and the Third World's (the South's) population is a three-quarter of the Capitalistic World System.

Because of its population composition, the South African economy has a striking dualistic or two-world character. South Africa (including the TBVC-countries) has a population of about 32 million. We can regard 8 million as First World people and the remaining 24 million as Third World people (in different stages of development). This also gives us a ratio of a one to three. Defines in this way, the South African microcosm is equal to 1 per cent of the macrocosm.

A remarkable set of structural similarities exist between the First and Third World "sectors" (or between the "cores" and the "peripheries") of the micro- and macrocosms respectively. Because of these structural similarities, South Africa is not only in quantitative terms a microcosm of the macrocosm, but also, and especially, in qualitative terms. As a qualitative replica (or a pocket book edition) of the macrocosm, the South African microcosm represents, in philosophical terms, the structure and dimensions of the macrocosm and has become a kind of focal point for the problems of the world of tomorrow. In this sense the microcosm defines the urgency of the problems of the macrocosm in a concentrated way. If one takes a bird's-eye view of the structure and problems of the microcosm, it is as if it becomes a crystal ball in which one can perhaps "see" the structure and problems of the bigger world of tomorrow. If one looks into the crystal ball the inevitability of a structural change to a new order in both cosms seems clear-cut. This is perhaps one of the most important similarities between them. An important difference between the two cosms is that the timespan in which such a structural change can be brought about in a peaceful way is considerably shorter in the case of the South African microcosm. Another difference is that the macrocosm consists of 120 - 140 odd independent countries while the microcosm is only one political unity (if we do not take the TBVC countries into account).

We can illustrate the two-world character of the South African economy in terms of the supply and demand of labour. If one compares the supply and demand of labour in 1980 with the anticipated state of the labour market by the year 2000, an alarming prospect emerges. In 1980 only about 7,5 million jobseekers were able

TABLE 10.1

THE SUPPLY AND DEMAND FOR LABOUR IN SOUTH AFRICA
1980 - 2000

	1980 mill.	2000 mill.
The potential supply	10 794	17 918
Demand in Modern Sector	7 538	9 983 ¹⁾
Peripheral Sectors (Subsistant farming and informal sector)	3 259	7 935
Peripheral Sector as a percentage of potential supply	30	44

1) Estimated at an expected growth rate of 3,1% per annum.

Source: Dostal, E., : Manpower ; supply and Demand 1980 - 22.
I.F.R. University of Stellenbosch, Bulletin No. 3.

to secure employment in the modern sector of the economy. At that time the total labour force was 10,8 million. Three million job-seekers could therefore not be accommodated in the modern sector in 1980. The majority of them were Blacks. They were left no choice but to "earn" their livelihood in the co-called peripheral sectors of the economy, i.e. in the subsistence sector of the National States and in the informal sector, mainly in and around urban areas. These jobseekers were, however, not unemployed in the traditional sense of the word, but underemployed i.e. partially or marginally employed at very low levels of measurable productivity. These activities in the peripheral sectors were, nonetheless, very welfare-relevant for the families involved.

It is projected that the total labour force will increase to 18 million by the year 2000. If South Africa is able to maintain an economic growth rate of 3.1 per cent per annum, the demand for labour in the modern sector could be in the region of 10 million. At least 8 million potential jobseekers will therefore have to "earn" a livelihood for themselves, and for the families to whom they belong, in the peripheral sectors. Of these at least 3 million (of whom the majority will be Black) is expected to earn their and their families' livelihood in the informal sector in the "White" urban areas.

A special characteristic of South Africa is the low level of urbanisation of mainly the Black population. Although we can expect a very high level of urbanisation in the next two decades, this will not alter the two-world character of the South African economy. While the First and Third Worlds were, respectively, mainly an urban and a rural "world" in 1980, this will change to a highly urbanised population but still divided in First and Third World urban components. This implies the growth of a large informal sector in urban areas parallel to the modern sector. The special features of this informal sector are discussed in detail.

CHAPTER 11 (17 pages)

The long term growth rate was relatively high until 1975. In the previous 40 years the growth rate of GDP was higher than 5 per cent per annum and almost 2,7 per cent in per capita terms. In the last 10 years it dropped to 3,2 per cent and 0,37 per cent per capita respectively. The possible reasons for this decrease is analysed in detail.

We have reason to believe that the level of production efficiency is relatively low in both the private and public sectors. The incremental growth of the public sector was relatively high and spendings in the public sector as a percentage of GDP increased from 18 per cent in 1960 to almost 30 per cent at present. Several reasons can be supplied for the lack of bureaucratic efficiency. They are mainly connected to the apartheid policy and to the fact that the present National Party government has been in office for 38 years.

The level of static economic efficiency is also at an alarmingly low level. One of the main reasons for this is the sharp increase in the capital intensity of the economy. This can mainly be ascribed to the fact that wages (both black and white wages) were chronically at a too high level, while the "price" of capital were chronically at a too low level. The low "price" of capital can be blamed on the low level of interest rates, the tax policy of the government and the over-valuation of the

exchange value of the Rand up to a few years ago. It is ironic that market prices in the markets for production factors - during the high days of the Freemarketeers - were responsible for the serious structural disproportions that developed in the South African economy. Other possible reasons for the unhealthy growth in the capital intensity of the economy is also discussed.

The improvement in the level of dynamic economic efficiency over the last two decades was also very disappointing. This can be explained by the inadequate spending on black education and the high capital formation in the public sector.

The level of consumer or allocative efficiency is also not at a satisfactory level. The main reasons for this are the unequal distribution of income and political bargaining power. Because of the apartheid system the facilities and services available for mainly the black population is very unsatisfactory.

CHAPTER 22 (17 pages)

In this chapter I discussed the lack of different kinds of stability in South Africa. From 1954 to 1974 the growth rate of GDP was 5 per cent per annum and the inflation rate 3,7 per cent per annum. From 1974 to 1984 the growth rate of the GDP was only 2,3 per cent per annum and the inflation rate 12,8 per cent per annum. In the second half of the seventies the inflation rate compared favourably with those of our main trading partners. In 1984 the inflation rate was 13,3 per cent, while those of our main trading partners were less than 4,6 per cent with the exception of France (6,7 per cent). The monetarist explanation for inflation was compared with the explanation of the structuralist school. In accordance with the last school of thought I tried to explain why the rate of growth of effective claims on the national product was chronically too high relative to the growth of the real product itself.

An analysis was also made of the factors influencing the balance of payment and the exchange rate. In this connection I focused on the large role of gold in exports and the destabilising effect of the fluctuations in the price of gold. I also discussed

the fluctuations in imports and the factors responsible for the strong tendency to import.

South Africa's great dependence on foreign capital and the changing composition of this capital are discussed thoroughly. The relatively high growth in the decade 1964-74, and the relative low growth rate in the decade 1974-84 is explained in terms of the great inflow of foreign capital in the first decade and the "outflow" of capital in the second decade. Finally I discussed the dramatic increase of South Africa's external debt from R12,6 billion in 1980 to R60 billion in 1985.

CHAPTER 13 (11 pages)

The very unequal distribution of income and property and the lack of equal opportunities are important characteristics of the structural pattern of South Africa. It can be explained partially in terms of the typical two-world character of South Africa. But we cannot close our eyes to the fact that the apartheid system in effect maintains and perpetuates the original inequalities. In Table 13.2 a percentage distribution of the income of different population groups are given (Whites = 100).

TABLE 13.2

PERCENTAGE DISTRIBUTION OF THE PER CAPITA INCOME OF THE DIFFERENT POPULATION GROUPS (WHITES = 100)

	1946	1960	1980	2000 ¹⁾
Whites	100	100	100	100
English-speakers	140	126	117	115
Afrikaans	68(48)	72(57)	82(70)	86(75) ²⁾
Coloureds	16	16	21	27
Asians	19	18	30	42
Blacks	8	8,4	10,3	10,7

1) Estimated by Van der Berg at a growth rate of 3,2 per cent and on condition that the incremental income will be distributed as in the 1970's.

2) Figure in bracket the income of the Afrikaans speakers as a percentage of the income of the English speakers.

This chapter analyses historic and possible future changes in the pattern of per capita income. The Gini-coefficient of South Africa is estimated as 0,68. In all probability it is one of the highest in the world.

Apart from the great inequality in the distribution of income, there also exists big differences in opportunities. In 1984 the amount spent on the education of every White child was seven times bigger than the amount spent on the education of Black children. The Fiscal Quality of Life Index (F.Q.L.I.) of the Whites (92) compares favourably with the F.Q.L.I. of the First World (97). the F.Q.L.I. of the Blacks (66) is lower than the index of the middle income Third World countries (71) but higher than the index of Sub-Saharan Africa (41). But what is really alarming, is the high percentages of blacks and Coloureds living in so-called (absolute) poverty. If the minimum subsistence level is put at R3 500 per annum for an average household of 5, an estimated 58 per cent of Black households and an estimated 50 per cent of Coloured families are living in poverty. In the last section of this chapter an analysis is made of the possible structural relationship between poverty and apartheid.

CHAPTER 14 (27 pages)

In this chapter an indepth analysis is made of what I prefer to call the economic (or the Capitalistic) and the political (or the welfare state dimensions of apartheid. I tried to put the structural origins of apartheid in its necessary historical perspective.

As indicated in Chapters 3 and 9, the nature of the civilisation of a country is relevant to its (social) welfare. The nature and the development of the civilisation pattern of a country is both a condition (for successful economic activity) and an (instrumental) objective of social welfare. The two-world character of South Africa - as it is maintained by apartheid - creates a "double civilisation" that has far-reaching (negative) implications for the economic, but especially for the wealth-creating capacity of the South African system.

I am of the opinion that in any discussion of apartheid a clear distinction must be made between its economic and political dimensions. The English Establishment - as an extension of British colonial capitalism - created the economic

(or capitalistic) dimension or structure of apartheid in the last quarter of the previous century, and mainly in the first half of this century. During the last 40 years the Afrikaner Establishment - as embodied in the National Party government - was responsible for the maintenance of the economic dimensions and for adding the political (or the welfare state) dimensions to the structure of apartheid. The Afrikaner Establishment thus complemented the system of apartheid capitalism, created by the English Establishment by a kind of "Apartheid Socialism".

A variety of measures implemented by the Colonial powers and/or the English Establishment from roughly 1870 to 1950 in effect "established" both Laissez-faire Capitalism and apartheid. These measures can be divided into four groups. (i) The military operations of the colonial power to break the resistance of Blacks (mainly in Natal and the Eastern Cape; (ii) The measures implemented from 1870 to 1920 to bring about a large scale transformation of rentier farming into capitalistic farming - this transformation reduced the Blacks (and a part of the Afrikaners) to dependent wage labourers; (iii) The military and constitutional development at the beginning of the century enabled the English Establishment to control South Africa not only economically but also politically in the first half of the century (in spite of the fact that the English speakers were only 40 per cent of the White population). (iv) The employment and wage policy of mainly the chamber of mines caused disruption and chronic poverty in Black circles.

The third and fourth point needs further clarification. The English Establishment (of which the Chamber of Mines was the core) succeeded in controlling South Africa politically for 29 of the first 38 years after Union. It was done through a clever policy of co-option and coalition. It used its political powers in an almost blatant manner to promote the capitalistic development of South Africa without taking any steps to compensate for the negative and proletarian effect of the forced process of modernisation. The indifference of the English Establishment towards the poverty and disruption of economic growth and forced urbanisation was typical of Laissez-faire Capitalism. It actually was a deplorable form of Colonial Laissez-faire Capitalism. This indifference put the blacks in a situation of chronic dependence while

it also played a major role in causing the poor white problem. It was therefore also indirectly responsible for the high temperature of Afrikaner nationalism in the thirties and fourties.

The close connection between capitalism and apartheid is clearly demonstrated by the actions of the Chamber of Mines. While the total cash wage of white mine workers were maintained at 20 per cent of total receipts of the gold mines, the total cash wages of black mine workers dropped from 16 per cent of total receipts in 1911 to less than 9 per cent in 1969. In real terms the wages of black mine workers dropped almost constantly from 1910 to the end of the sixties and it set to a large extent the level of black wages throughout the economy.

The role played by the English Establishment and General Smuts to "establish" apartheid (and apartheid capitalism) before 1948, was put in a nutshell by Paul Johnson: "The structural essentials of white supremacy and physical segregation existed before the United Party lost power to the Boer Nationalists in May 1948". (Johnson, P., A History of the Modern World - from 1917 to the 1980's, Weidenfeld & Nicolson, London, 1983.)

In the maintenance and extension of apartheid, the Afrikaner nationali played a decisive role after 1948. In its political dimension apartheid mainly became a welfare state policy for the upliftment and protection of the (Poor White) Afrikaners.

The struggle between the English speakers and the Afrikaners reached a zenith during the Anglo-Boer War but subsided afterwards. The struggle between the two White groups again intensified in the 1930's when the small Afrikaner farmers were forced by poor economic conditions and severe droughts to migrate to the cities. Almost half of the Afrikaners became Poor Whites. They found it very difficult to adapt to the rather unfriendly Englishspeaking cities. They also lacked the necessary skills and encountered, for the first time, direct competition from Blacks for job-opportunities.

They blame their poverty on ongoing British colonialism, on the dominant political and economic position of the Englishspeakers, and on Black competition in the labour market. The struggle between the two White groups became a class struggle between

the Afrikaner underdogs and the English upperdogs. The Victorian cultural superiority projected by the English Establishment (of which the English newspapers were very much a part) caused great resentment in Afrikaner circles. Strongly supported by the Dutch Reformed Church, Afrikaner leaders used the underdog mentality and the perception of economic deprivation, to mobilise a strong Afrikaner nationalistic movement in the thirties and fourties. The purpose of this movement was to regain for the Afrikaners - as the true pioneers - their alleged rightful political and economic position. With the take-off of this feverish Afrikaner nationalism a new meaning was given to the apartheid structure and it was since then used for new purposes.

In the first 15 years after 1948 the government took several measures to solve the Poor White problem and to end the real and the imagined position of Afrikaner inferiority. In this period apartheid became legalised and became nothing but a welfare state policy for the Whites and especially the Afrikaners. Some of the measures taken in this period can nevertheless be justified. By the middle of the sixties, however, the Poor White problem was solved and almost all the Afrikaners had reached middle class status. At that stage a radical change in policy to broaden democracy and the Welfare State to include Coloureds and Blacks ought to have taken place. It unfortunately did not happen, and apartheid was maintained and institutionalised in a completely unjustifiable manner. The rightwing Afrikaners - or those who could not get rid of their inferiority or underdog complex - gained control over the National Party. During the misguided years of Mr John Vorster's administration (1966 - 1978), the government misused its political power to put the Whites - and especially the Afrikaners - into even more protected and more privileged positions.

The rather drastic adaptation of government policy to dismantle apartheid that ought to have commenced in the middle sixties did not take place and the process of structural change was retarded for almost two decades. The manner in which Dr Verwoerd sanctioned apartheid to give it a moral and even a religious justification played an important role in the maintenance of apartheid as a welfare state policy for the Whites (and mainly

the Afrikaners) at a stage when there was no social or economic justification for such a policy. The apartheid system not only put the Whites into a privileged and protected position, but also caused a perhaps too quick upliftment and bourgeoisment of especially the Afrikaners. Because of this the Whites have not only become very materialistic but they also now pamper a kind of rich man's cult.

The National Party government became a reform party in the early eighties. Although meaningful reform took place since then, the government can still not get rid of its syndrome of doing "too little too late".

In Chapter 13 we discussed the unequal distribution of income and opportunities and the close correlation between the income and the ethnic groups. Because of the apartheid system power, freedom and rights are also distributed in a very unequal manner between the different ethnic groups. This is a very unfortunate state of affairs that cannot be maintained. Good reasons can be supplied to explain the lack of "new freedoms" available to some of the population groups. Unfortunately the "old freedom" available to the groups other than White, still left much to be desired.

CHAPTER 15 (10 pages)

In this chapter I tried to analyse the mutual relationship of complement and conflict between the four intermediate objectives in the South African system characterised by apartheid and the "double civilisation". The nature of this mutual relationship is of course very relevant from a social welfare point of view. I came to the conclusion that as long as the apartheid system is maintained, the mutual relationships are inclined to be very conflicting. Although we have reason to be very concerned (and even alarmed) by the level to which all four of the intermediate objectives are attained, it is mainly the lack of stability and the possibility of even more instability that creates the greatest reason for alarm. I am therefore mainly in agreement with what the Human Science Research Council (HSRC) report on Intergroup Relations (published last year) said about the conflict potential in South Africa.

CHAPTER 16 (22 pages)

In this final chapter I tried to put the arguments in favour of fundamental reforms and the stumbling blocks in the way of such reforms in the necessary perspective.

Perhaps it is not correct to talk about the dismantling of apartheid. What we need is a restructuring of the South African system on a grand scale. This will gradually dismantle apartheid and at the same time create appropriate structures for the pluralistic situation in South Africa. This restructuring of the system will put the White before four difficult challenges.

1. Firstly, the typically bourgeois values and convictions of the Whites will have to give way to an orientation that will have to be less materialistic and individualistic and more community orientated (i.e. community in the broader sense of the word to include all groups).
2. Secondly, important structural adaptations will have to be brought about in the economic system. The purpose of these changes must not only be to improve the (measurable) growth potential of the economy, but also to improve the capacity of the system to create social welfare.
3. Thirdly, we will have to remove the remaining apartheid measures which are responsible for an unnecessary "compartmentalisation" of the South African society. We will have to replace it with a social stratification deliberately structured to create cross-cutting cleavages and overlapping group membership.
4. Finally, we will have to develop a new constitutional structure that will on the one hand create satisfactory opportunities for every population group in the decision-making processes on every level of government and on the other hand contain the necessary controlling mechanisms to ensure that the demands generated by the new political system will not unduly overstrain the capacity of the economy.

The transformation towards a new socio-economic and political system and a new pattern of life in South Africa is something that cannot happen overnight. What is needed is a process of structural reform during the next two decades. Because of the increasing hostility of the outside world and the ongoing internal unrest, South Africa's future as a civilised country will be in balance in the decades ahead. The delicate state of this balance can be disturbed either by the action of the left radicals or the far-right.

The inevitable question one has to ask is if there are still possibilities "open" between the approach of the left radicals on the one hand and of the far-right on the other hand. Can we still recruit enough moderates in all population groups to support an accelerated but not a disruptively fast process of reform? Does South Africa still have time - in the light of external and internal developments - for a reasonably orderly, evolutionary and negotiated transformation to a new deal? Only time can tell.

At this stage it ought to be clear to all thinking and reasonable people that both the left radicals and the far-right will cause serious problems. The kind of middle course hopefully still "open", will not be an easy one. It is built on an approach that cannot be formulated in a clear-cut blueprint. It will demand great sacrifices and great tolerance from all groups - but especially from the privileged Whites. It will need time to be implemented and will involve a great deal of risks. But if enough people - in the midst of a hopefully controlable level of endemic unrest - can be convinced about the merit of such a middle course, the South African crisis can still be salvaged. If appropriate and effective economic and political structures can be established via a reform process lasting a decade or two, the mutual relationships of conflict between the intermediate objectives can still be transformed into mutual relationships of complementarity. Then a high growth rate will again become possible and hopefully it will be conducive to the social welfare of all the population groups.