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**The need for a transformation period  
towards a post-apartheid South Africa**

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## FOREWORD

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The Centre for Contextual Hermeneutics at the University of Stellenbosch has initiated a project on economic values as part of its central aim to develop values that will support a democratic culture in South Africa.

The objective is to focus on the nature of a post-apartheid economy and more specifically on the preconditions for, demands on and steps towards such an economy.

With the current emphasis on the process of negotiation and related constitutional matters, the danger exists that the equally vital question of a future economy does not receive the attention it deserves. The project therefore hopes to stimulate and deepen the debate on economic issues by contributing studies based on independent research, by creating opportunities for interaction between the different role players and by facilitating a clearer understanding of current economic realities and future challenges.

As part of this process, the Centre is publishing a series of occasional papers dealing with specific issues of a post-apartheid economy. In this essay, Professor Terreblanche considers the reconstruction of the South African economy in the wider context of the political and social transformation in the country. He stresses the interrelatedness of all these factors, where timing could prove to be of crucial importance and argues the need for a ten-year transformation period as an essential precondition for a sound post-apartheid economy. The paper is offered as a contribution to the debate and any comments, suggestions or criticism will be welcomed by the author.

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Johann Kinghorn

Head: Centre for Contextual Hermeneutics

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## THE NEED FOR A TRANSFORMATION PERIOD TOWARDS A POST-APARTHEID SOUTH AFRICA

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### Abstract

*The nature of a post-apartheid South Africa is on many agendas at present. Unfortunately the economic dimension of a post-apartheid system has been much neglected. Apartheid can only be abolished successfully if the transition to a new system takes place in a relatively orderly manner and during a period of time in which there will be opportunities to restructure and strengthen the economy. This is essential if the economy is to create more job opportunities, relieve some of the most serious poverty conditions and strengthen its tax capacity.*

### 1. RIGIDITIES AND IMPONDERABLES EN ROUTE TO A POST-APARTHEID ECONOMY

The nature of a post-apartheid society is on many agendas at present. The multitude of publications, conferences and debates on this issue centre mainly on the need for a non-racial political system and its possible characteristics. Much less attention is given to the nature of a post-apartheid economic system and to the structural changes necessary to synchronize it with a truly democratic parliamentary system and to ensure that it will have the fiscal capacity to sustain such a system.

It is regrettable that more attention is not being paid to an economic system. This relative neglect of the economic dimension of the post-apartheid agenda is unfortunate. Whilst the abolition of apartheid in the political sense of the word is undoubtedly a *necessary* condition for removing the barriers to a more just system which will provide higher living standards especially for the black population, it is unlikely to be a *sufficient* condition. It will prove to be a sufficient condition if only the transition to a post-apartheid system takes place in a relatively orderly (or non-disruptive) way and during a period of time in which there will be opportunities to restructure and strengthen the economy. Restructuring will be needed to remove at least the main social and economic abnormalities of a century of apartheid-based development while strengthening (or rebuilding) the economy will enable it to create

more job opportunities, to relieve some of the most serious poverty conditions and to strengthen its tax capacity.

Several reasons can be offered for the relative neglect of a post-apartheid economy. Apartheid is first and foremost a political system and its abolition to create a non-racial constitution necessitates political actions. Although it will not be easy for the participants in genuine and representative negotiations to reach agreement on the new constitution, they will have a relatively free hand to create or choose a new constitution from a variety of constitutional models available. No comparable freedom to create or to choose a new system exists for a future economy. The present economic system cannot be changed easily or at random or in a short space of time. It possesses certain almost fixed characteristics, certain rigidities and a rhythm or logic of its own. All of these will impose strictures on the freedom of future governments to create a functional 'new' economy. If these strictures are ignored the consequences will be disastrous. Apart from these considerations, a great number of internal and external imponderables will also affect the nature, strength and success of a post-apartheid economy. Many of these imponderables have to do with 'timing' in more than one sense.

In an attempt to analyse the effects of the economic rigidities and imponderables on a post-apartheid economy, it may be useful to systematize these effects in terms of a possible transformation model. In the 'time' framework of such a model - let us call it the ABCD-model - we can distinguish three successive periods, namely (i) the final or 'destructive' phase of apartheid (the AB-period in the ABCD-model), (ii) the transformation or the reconstruction phase (the BC-period) and (iii) the post-apartheid or the (non-racial) fully democratic phase (the CD-period).

ABCD-MODEL		
-A	(± 1975)	(i) The final or 'destructive' phase of apartheid
-B	(19 ?)	(ii) The transformation or reconstruction phase
-C	(20 ?)	(iii) The post-apartheid or fully democratic phase
-D	(20 ?)	

This model enables us to ask important questions that will (undoubtedly) prove very relevant to a post-apartheid economy. How long will the AB-period or the final phase of apartheid last and how destructive will its effects be on the South African economy and on her external relations? When will South Africa reach point B and what will symbolize this dramatic turning-point in her history? Will internal forces and the outside world be patient enough to allow South Africa the luxury of a mainly economic transformation and/or reconstruction period and how long will this transformation phase last? What type of foreign aid and co-operation will South Africa need during this phase? What type of foreign aid and co-operation can she expect, especially if a non-racial political system is not fully implemented during this phase? And when will South Africa reach point C and what will symbolize this important milestone in her history?

I have no intention of answering all these questions. Certainly, one would need prophetic skills to do so.

## 2. THE FINAL PHASE OF APARTHEID

A series of events in the early seventies brought about structural changes on economic and social levels that undoubtedly signalled the beginning of the end of the Verwoerdian - or any other apartheid - paradigm. These events, coupled with the world-wide economic downswing following the OPEC oil price hikes, had a very negative effect on the growth rate of the economy. Since 1974 the annual growth rate averaged less than two per cent per annum and real *per capita* income declined by almost one per cent annually, which aggravated black poverty in particular.

Speculation about what will symbolize the end of apartheid and the beginning of the transformation period is to no avail. But it will have to be a fairly dramatic event, important enough to signal the normalisation of South Africa's international relations. It is probably not realistic to expect this event in the foreseeable future. Although the bureaucratic state cannot postpone the symbolic end of apartheid indefinitely, it has enormous powers at its disposal to retard it for several years. (See Terreblanche & Nattrass, 1990.)

### 3. THE TRANSFORMATION OR RECONSTRUCTION PHASE

During the transformation phase, South Africa should ideally have a transitional government which will phase out white dominance and phase in a representative democratic government in an orderly fashion. Also, this transitional government should ideally be able to resolve the stability and legitimacy crises so that South Africa's economic relations with the rest of the world will be normalised. It would be almost impossible for a transitional or a new democratic government to start restructuring the economy if it were unable to create internal and external conditions conducive to high and sustainable economic growth.

The 'Declaration of the OAU *ad hoc* committee on Southern Africa' issued in Harare in August 1989 and endorsed by the General Assembly of the UN in December 1989 stipulates that 'after the adoption of the new Constitution ... the international community would lift the sanctions that have been imposed against apartheid South Africa' (paragraphs 21.6 and 21.7). If the ANC and the international community are indeed adamant in demanding complete agreement on a new constitution before economic relations with the rest of the world can be normalised, insurmountable economic problems will be created. It is hoped that international relations will be normalised at the *beginning* of genuine and credible negotiations on the nature and the phasing-in of a truly non-racial and non-group democratic constitution. Large-scale foreign involvement in the negotiation process will probably be necessary to gain early international economic co-operation.

The reconstruction of the economy during the transformation period will be formidable and time-consuming. It will comprise of at least the following four aspects: (i) the re-integration of the South African economy into the world (or global) economy; (ii) the structuring of a stable, non-conflicting and legitimate social framework; (iii) the democratisation of economic structures and the economic empowerment of black South Africans; and (iv) the democratisation of the public economy (both on the public financial and the bureaucratic levels).

None of these tasks will be accomplished easily.

#### i) *The reintegration of the South African economy into the world economy*

As a developing country with an exceptionally high population growth rate, South Africa can only hope to attain adequate economic growth if it can maintain internal conditions attractive enough to invite a large inflow of foreign capital and entrepreneurial skills.

Until the early seventies the South African economy maintained a long-term growth rate in real GDP of at least four per cent per annum. During the period 1947 - 1974 the average annual increase in real GDP was almost five per cent (Smit, 1989: 2).

As is typical of a developing country, South Africa made ample use of foreign sources to finance investment. In the first fifty years after the discovery of gold (1887 - 1934) foreigners supplied three-fifths of the investment in gold mining. In the relatively high growth period (1947 - 1975) net domestic saving was on average 13,5 per cent of GDP annually. During this period South Africa succeeded in financing 14 per cent of investment annually from foreign sources. The low growth period (since the early seventies) coincided with an outflow of foreign capital (equal to eight per cent of investment annually in the period 1977 - 1988) and a decline in net domestic saving to 7,5 per cent of GDP annually during 1982 - 1988 (Smit, 1989: 6).

With a population growth rate of almost 2,5 per cent (and a higher growth in the labour supply) South Africa needs a target GDP growth rate of *at least* 5,5 per cent to absorb the annual growth of the labour force. Even this modest target rate growth will require a high inflow of foreign capital. According to Blumenfeld the capital: output ratio amounted to an average level of 2,8 per cent between 1977 and 1984. Blumenfeld calculates that with an expected capital: output ratio of 3,0 in the foreseeable future, the net investment requirements will be 16,5 per cent of income. To translate this into a gross investment requirement, Blumenfeld correctly takes the rate of depreciation of the capital stock into account. In recent years depreciation has been approximately 55 per cent of gross investment. Thus, according to Blumenfeld, a net investment requirement of 16,5 per cent would imply a gross investment: income ratio of no less than 36,6 per cent (Blumenfeld, 1988: 112-113).

Either one of two domestic saving scenarios could be used to estimate the foreign capital needed during a ten-year transformation period (assuming a gross investment: income ratio of 36,6 per cent). If the transformation period of ten years should start in 1990 and net savings are as high as 13,5 per cent of GDP (as was the case from 1960 - 1978) then an estimated 18 per cent of net investment will have to be financed from foreign sources. During the period 1990 - 1999 this will necessitate an *average* annual net inflow of R21 500 million (assuming an annual inflation rate of 14 per cent). In dollar terms the foreign capital needed will be \$4 400 million annually if a gradual weakening of the rand is also taken into account. (At present approximately \$1 500 million per annum is flowing out of South Africa.)

But if, according to the second scenario, net savings should remain at the relatively low level of 7,5 per cent of GDP - the average of 1982 - 1988 - then no less than 54 per cent of net investment will have to be financed from foreign sources. During the period 1990 - 1999 and given an inflation rate of 14 per cent an *average* annual net inflow of R65 000 million (or approximately \$13 300 million) annually will be needed.

It is realistic to expect that strong political pressure will be exerted on the government during the transformation period to increase social spending on black people to attain parity at white benefit levels (see (iv) below). Therefore the government's contribution to net savings will probably remain low. We thus have reason to believe that the net savings ratio will be closer to 7,5 per cent. It is therefore reasonable to allege that to maintain a 5,5 per cent growth rate during a ten-year transformation period from 1990 - 1999 South Africa would need at least \$10 000 million in foreign capital *annually*. Furthermore, at least half of it should be direct investment. If the transformation period should commence only in the second half of the nineties the amount needed would be substantially higher than \$10 000 billion annually - not only in monetary but also in real terms.

removals' (Constitutional Commission, 1996: 10). The government will implement a comprehensive land and resettlement programme during the transformation period. This will be economically viable if sound property principles are respected and if the resettlement of black people on smallholdings is supported by the appropriate infrastructure. According to Moll the experience of Latin-America experience proves 'that land reforms tend to raise agricultural output in the medium term ... (while they can also) lead to considerable labour absorption' (Moll, 1988: 25).

There is a strong and convincing case for not nationalising the large conglomerates (or any other private business). The conglomerates constitute the core of the capitalistic system and can play a key role in the integration of the South African economy in the global economy and in the attraction of needed foreign capital. But it would be unrealistic and even naive of the capitalistic business community,

iii) *The democratisation of economic structures and the economic empowerment of black South Africans*

The social and economic abnormalities of nearly a century of apartheid are so fundamental that we can talk about the 'structural crisis' of the South African economy, 'meaning that the crisis originated from within the (structure) of the economy' (Cassim, 1988: 9). During the transformation period the most serious abnormalities will have to be removed to compensate at least partially for their ill-effects. Black South Africans would thus also be integrated to a satisfactory degree into the mainstream of the newly structured economic system.

Fuad Cassim is correct when he alleges that an understanding of the 'structural crisis' convinces one 'that the great task of social and economic development in South Africa does not simply lie in a "technocratic" manipulation of macro-variables to attain growth, but involves a *qualitative change* in socio-economic relations both internally and externally. Thus, any alternative has to be about challenging the social relations that have been structured by apartheid and capitalism' (Cassim, 1988: 13).

From the point of view of economic structure, the very unequal distribution of income, property and economic power is the most serious abnormality. With a Gini-coefficient of 0,68 the inequality in the distribution of income is one of the largest - if not *the* largest - in the world. To complicate matters, a close correlation exists between the unequal distribution of income and opportunities on the one hand and the ethnic and statutorily defined racial groups on the other (Bromberger, 1982).

At present 50 per cent of the population and almost 70 per cent of the black people earn a subminimum income, while more than 50 per cent of the black labour force cannot find permanent jobs in the formal sector of the economy. The Land Acts of 1913 and 1936 prohibited black people from owning land in 87 per cent of South Africa. These restrictions have only recently been relaxed in certain black townships (McGrath, 1984).

A basic feature of the South African private business sector is the very high concentration of economic power and control in the hands of less than ten big conglomerates. White people are almost in total control of trade, industry and mining. Privatisation may have increased white ownership and white control of private business. Although privatisation has economic merit it is nonetheless a pity that it was not postponed until a truly democratic government could decide on the terms by which the relevant public assets (theoretically the 'property' of 37 million people) would become privatised.

Decades of apartheid and racial capitalism have disempowered the black community politically, socially and economically. Political disempowerment is not only the result of disenfranchisement but also of the impoverishment of black political leadership after decades of bannings, goalings, restrictions and mass detentions. Social disempowerment has been caused by poverty and by living conditions that led to a breakdown of the home unit and family life. To this must be added the economic disempowerment caused by discrimination, the totally inadequate educational system and the lack of opportunities to develop senior leadership in private and public business organisations and in trade unions. The restructuring of the South African economy would be incomplete if it did not succeed in rectifying the above situation.

The possibilities and limitations of redistribution measures will be discussed in the next section. The necessity of effective measures to create enough job opportunities cannot be overemphasized. If it is possible to maintain a 5,5 per cent growth rate of GDP during the transformation period, enough job opportunities will be created to absorb the new entrants to the labour market. But a high growth rate will not be enough to integrate black South Africans into the mainstream of the new economy. Any structural changes should also decrease the high capital intensity of industrialisation and urbanisation so that more people can be employed. While

The pace at which the social spending gap can be closed during the transformation period without overstraining the tax capacity of the economy depends on several imponderables of which the growth rate of GDP is the most important. If a growth rate of 5,5 per cent can be maintained for ten years during the transformation period, the percentage of GDP needed to attain parity at white benefit levels will decline from 31 per cent to 22 per cent in terms of the 1986 GDP. (It is estimated that a growth rate of 5,5 per cent, i.e. twice the population growth rate, will bring about an increase of more than one-third in the *per capita* income.) While parity in social spending at white benefit levels would have necessitated total government spending of 48 per cent of GDP in 1986, this will decline to 36 per cent at the end of the transformation period if a 5,5 per cent growth can be maintained during this period.

Social spending of 22 per cent and total government spending of 36 per cent of GDP at the end of a ten year transformation period is unfortunately still unattainable. It would perhaps become possible to reach parity at white levels of social spending at the end of a ten-year transformation period if spending on the white group can be scaled down by say 20 per cent during that ten-year period. During a period of relatively high growth this kind of scaling down of white social spending may be possible without seriously endangering social stability. Fortunately the level of social spending on whites is relatively high (perhaps too high) in terms of comparable international income levels.

If an economic growth rate of say 6,5 per cent can be maintained during a ten-year transformation period, reaching parity of social spending at the present or at somewhat lower white levels at the end of the transformation period may be possible. But to maintain a 6,5 per cent growth rate the foreign capital needed will be much higher than the \$10 billion needed annually to attain a 5,5 per cent growth rate.

During the transformation period the transitional (or a truly democratic government) will continuously be confronted by the extremely difficult choice between economic growth and redistribution on behalf of greater social justice and legitimacy. While the need for the latter cannot easily be overemphasised after nearly a century of apartheid, the experience of not only developing, but also highly developed and industrialised countries shows that a sharp increase in social spending and attempts to maintain a relatively high level of government-sponsored social services - i.e. high relative to the stage of economic development and/or income levels - can easily overstrain the tax capacity of the economy and cause a 'fiscal crisis' which will have a negative effect on the growth of the economy. If this kind of fiscal overload should be experienced during the transformation period it is preferable that the political transition towards a true and non-racial democracy should not take place all at once or in too short a time, but that it should be phased in according to

processes agreed upon during the negotiation and/or in accordance with the tax capacity of the economy. If sound reasons for the completion of the political transition in a relatively short time do exist, it would be wise to entrench *fiscal* constraints in the constitution to protect the economy against the dangers of fiscal 'overload'.

The democratisation of the public sector during the transformation period should also include steps to redress the racial exclusiveness of the public sector, especially the senior positions. According to Pierre Hugo, given the 'consistency with which successive South African governments have passed racially exclusive legislation encompassing most facets of societal activity, the *de jure* non-discriminatory legislation pertaining to the employment in the public service presents a curious anomaly'. Although Section 11(3) of the Public Services Act of 1957 stipulates 'a number of non-racial attributes ... which should be applied in making appointments and promotions ... (the) reality (is) every bit as racially exclusive as in the field of industrial employment, in fact, more so' (Hugo, 1989: 228).

A government-sponsored equal-opportunity policy would of course not be adequate to redress the unfortunate and unjust system that has developed in public sector employment. It would also be necessary to create special opportunities for people other than whites via an affirmative action policy. This implies that large numbers of white people in public service will have to be 'phased-out' into the private sector, or they will have to be content with the prospect that almost no promotion possibilities will exist for them. Any policy to bring about a satisfactory 'Africanisation' of the public sector at the expense of the white population can succeed without undermining the social stability only during a high growth period when enough lucrative job opportunities are created in the private sector to absorb those white people who will have to leave the public service. However, the inadequate educational system for black people and their lack of experience makes it difficult to find sufficient numbers with the necessary skills and experience for employment and promotion in the public service.

#### 4. CONCLUSION

As stated above, the nature and success of the post-apartheid economy depends on imponderables connected with unforeseen and unpredictable political, economic, social and international events. In all these events, timing can prove to be of crucial importance.

In this article the need for a ten-year transformation period is regarded as an essential precondition for a sound post-apartheid economy. Given the essential social and economic developments that will have to take place during a transformation decade and the kinds of stumbling blocks that will be encountered, it

seems highly unlikely that a sound basis for a post-apartheid economy can be created in such a short period. From purely economic and public financial points of view it might be better if the transformation period and the restructuring of the economy took place over a much longer period. But from a political point of view the transition from apartheid towards a truly democratic constitutional system should probably happen in less than ten years.

The task to synchronise a South African Perestroika with a South African Demokratizasiya will indeed be a formidable one. However, social, economic and political restructuring will not only redistribute income and wealth, but also power and esteem. Allocating of the concomitant high costs and benefits will therefore be very painful, even under the most favourable conditions. All participants should therefore be convinced, with appropriate South African Glasnost, that political democratisation will only succeed if a very high growth rate of GDP can be maintained for a decade or more. Of the two alternatives, equality and efficiency, there should be a built-in preference for the latter. In accordance with the sound principles of social democracy, if a well-founded system of democratic capitalism with a truly democratic parliamentary system can be developed in the long run, the emphasis can then shift towards equality.

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