

1993

MAIN FEATURES OF THE SOUTH AFRICAN ECONOMY<sup>1)</sup>

S.J.T.

S.J. Terreblanche  
Department of Economics  
University of Stellenbosch  
STELLENBOSCH  
SOUTH AFRICA

The main features of the South African economy can be summarised in terms of the following three phenomena:

- (i) structural inequality in the distribution of income and power;
- (ii) chronic stagflation and widespread poverty and underemployment; and
- (iii) a growing dependency on foreign investment and foreign support.

1. STRUCTURAL INEQUALITIES

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 "Power, Property 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.

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

1) Paper read at an Ecumenical conference of the World Council of Churches on "Ethical Investment in a changing South Africa", at Utrecht in the Netherlands, 9-12 June 1993.

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.

(a) The inequality in the distribution of property, power and control

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.<sup>2)</sup> 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 echelon 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. In the modern sector of the economy a variety of professional groups are playing an important role and has attained considerable power.<sup>3)</sup> It is, however, important to realise that

2) In the industrialized Western World the top 5 per cent owned between 35 and 55 per cent of all personal wealth.

3) In the 20th century world it is no longer adequate to regard only tangible objects as 'property'. Property is not, as is

'power' is not only concentrated in the five 'centres' represented by the government, the bureaucracy, the corporate sector, the media and the professional groups. Over the last 10 years a rapprochement came about between these five centres of power and (especially during the last two years) an informal but rather solid 'Compact of Power' has been formed between them. The Bourgeois Establishment is based on this 'Compact of Power'. (See fig.5).

The Bourgeois Establishment has attained 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 *nouveau riches* undertone and a typical bourgeois scheme of values. 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 be able to maintain its position of power and privileges as intact as possible, this Bourgeois 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 the Establishment - and of each of its five constitutive parts - to resist 'restructuring', unravelling and redistributive measures and to propagate their case for an unbridled freemarket economy in (seemingly) convincing ideological and 'value' arguments, should not be underestimated.

---

3) Cont./ commonly believed, an object or a credit instrument. If we define property in its wider meaning of 'power over resources' we should also include professionally trained people as 'property'. Since the essence of property is the right to (some portion of) the flow of income from resources, the professional 'capital' - especially well-trained and statutory organised professionals - must be regarded as a very important (and powerful) part of the 'resources' and the property of a nation. In South Africa more than 90 per cent of the Whites are employed in skilled occupations, while 14 per cent of the Blacks are occupied in skilled occupations. In the case of professionals - widely defined to include not only statutory professionals but all other professionals - 'professional capital and power' is also exceptionally unequally distributed. This adds a very important dimension to the inequality in the distribution of power, property and control.

The argument of the Bourgeois Establishment that restructuring measures with unnecessary disruptive effects should be avoided, have merit. But it is nonetheless important to realise that the restructuring of property and power relations cannot be evaded (*en route*) towards a New South Africa. Although all the power relations cannot be changed over the short period without disruptive effects, we will not 'arrive' in a democratic and post-apartheid South Africa if these power relations are perpetuated intact into the future. (See below the section on "The restructuring of power relations during the next 5 to 10 years.")

(b) The unequal distribution of opportunities and income

The unequal distribution of opportunities, income and consumption available for the different population groups is a matter that needs immediate attention. If we put the per capita personal income of the Whites on an index of 100, the per capita personal income of the Asians, Coloureds and Blacks is at present 35, 25 and 12. The Gini-coefficient for South Africa is estimated to be 0,68. It is the largest of all countries for which this kind of coefficient has been estimated. The distribution of income is therefore more unequal than in other countries for which the Gini-coefficient has been estimated.

The most important 'inequality' from a political point of view, is the inequality in the government's Social Spending on education, housing, health, social security and welfare services. In the 1991 Budget R32 billion was allocated for Social Spending. According to an estimate  $\pm$  R10,6 billion was spent on the 5 million Whites, R16 billion on the 29 million Blacks and R5,4 billion on the 4 million Coloureds and Indians. The per capita spending on each group is then R2 028 on Whites, R566 on Blacks and R1 295 on Coloureds and R1 227 on Indians. See Table 1)

The IMF published an Occasional Paper (No.91) on Economic Policies for a New South Africa in January 1992. The Paper focussed sharply on the unequal Social spending and on the need of closing the racial spending gap:

A major challenge to budgetary policy in the new South Africa will undoubtedly lie in the area of social spending. In particular, policymakers will need to address the question of how far and how fast to move to a more equitable pattern of

social spending across racial groupings and to extend social services to those who currently do not receive social benefits.

Social spending in South Africa - net of social security payments - has risen to levels that are relatively high by international standards. Correspondingly, the scope for addressing social problems through raising further the share of these expenditures in the budget appears to be limited. Rather, a basic re-ordering of priorities within the present social spending budget is required if South Africa's social problems are to be addressed without resorting to either deficit financing or to increased fiscal revenues.

The IMF Paper made a comparison between the level of social spending in South Africa and other upper-middle-income countries. According to the Paper South Africa's expenditure on education in 1987 substantially exceeded not only that of middle-income countries, but also that of the industrial nations. It was 6,3 per cent of GDP in South Africa, 4,2 per cent in upper-middle-income countries and 5 per cent in industrial countries. However, this relatively high level masks the large difference in expenditure per capita between the races.

In relation to GDP, South Africa's spending on health care was relatively constant during the 1980s and significantly exceeded that for the other upper-middle-income countries. As with education, there is a wide disparity in the provision of health care between the races, with the standard of health care provided for the white population being very high by international standards.

Expenditure on social security and welfare have lagged behind those of other countries, largely reflecting South Africa's limited social safety net. It is interesting to note that general government social security and welfare expenditure tends to be positively correlated with income. For 1983-87, the share of GDP spent in South Africa on this category was only 2,1 per cent, over 8 per cent for the upper-middle-income group, and over 13 per cent for industrial countries for which data were obtainable.

Industrial countries spent more than a third of total government expenditure on social security and welfare. In South Africa the percentage is only 6 per cent. This would imply that, as the disadvantaged groups are brought into the industrial process in South Africa, much higher resources will have to be spent on this category.



The highly uneven provision of social services is reflected in education expenditure. In 1990 R4 087 was spent on every White pupil, R907 on blacks, R2 406 on Coloureds and R3 055 on Asians (IMF Paper, Table 15). With actual education expenditure in 1990 at 5½ per cent of GDP, very high pressures will come to bear on the budget as the more advantaged groups try to protect the existing quality of their education and the less advantaged strive to equalize spending at higher rates. In particular, it is apparent that at present Asian and Coloured levels, which are approximately double the average overall level, would be beyond the capacity of the budget.

My colleague, Prof. Servaas van der Berg, recently made an estimate of the effect a 4 per cent economic growth rate (from 1991 until 2000) will have on the interracial income distribution without and with complementary redistributive measures through the Budget. Table 1 shows that a 4 per cent growth rate will increase the Black share in the distribution of personal income from 35,4 per cent in 1990 to 43,1 per cent in 2000. The per capita income ratio between whites and blacks will improve from 100:11,9 in 1990 to 100:14,1 in 2000. If however, Social Spending can be increased from its present level of 12 per cent to 15 per cent of GDP and all the additional Social Spending - partly because of the growth rate of 4 per cent and partly because of the increase of social spending to 15% of GDP - can be spent on blacks, their per capita personal income plus social spending will increase to become 17 per cent of those of whites in 2000. (See Table I).

But how realistic is this scenario? It will not be easy to attain and to maintain a 4 per cent growth rate in the 1990s. To accomplish this we need an annual influx of \$7 billion in foreign investment (see below). It will also not be easy to increase Social Spending to 15 per cent of GDP and to allocate all the additional spending towards blacks. Although the assumption of the scenario is rather tough, it is not unattainable. But then we must normalise our international relations as soon as possible and maintain conditions attractive enough to invite \$7 billion foreign investment annually.

TABLE 1: Interracial income distribution, 1990, and forecast for 2000 without and with increased social spending on blacks

SECTIONS	WHITE	COLOUR- ED	INDIAN	BLACK	TOTAL
1) Personal income (R-1990 billions)					
1990	93,8	15,0	6,3	82,9	177,8
2000 (growth 4% p.a.)	117,2	23,3	9,2	113,4	263,1
2) Distribution of personal income					
1990	52,8%	8,4%	3,6%	35,4%	100%
2000 (growth 4% p.a.)	44,6%	8,8%	3,5%	43,1%	100%
3) Per capita income (R-1990)					
1990	18 881	4 697	6 620	2 243	4 788
2000 (growth % p.a.)	21 601	6 148	8 204	3 044	5 529
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	10,8	4,2	1,2	16,0	32,0
2000 (15% of GDP)	10,8	4,2	1,2	35,2	59,2
6) Social spending per capita (R-1990)					
1990	2 098	1 295	1 227	566	853
2000	1 953	1 110	1 069	945	1 244
7) Social spending per capita (ratios)					
1990	100	81,7	85,5	27,0	
2000	100	56,8	54,7	48,0	
8) Personal income plus social spending per capita (rands)					
1990	20 978	5 992	7 847	2 809	5 641
2000	23 554	7 258	9 273	3 989	6 773
9) Per capita personal income plus social spending (ratios)					
1990	100	28,8	37,4	13,4	
2000	100	30,8	39,4	16,9	

Source: S. van der Berg 1991.

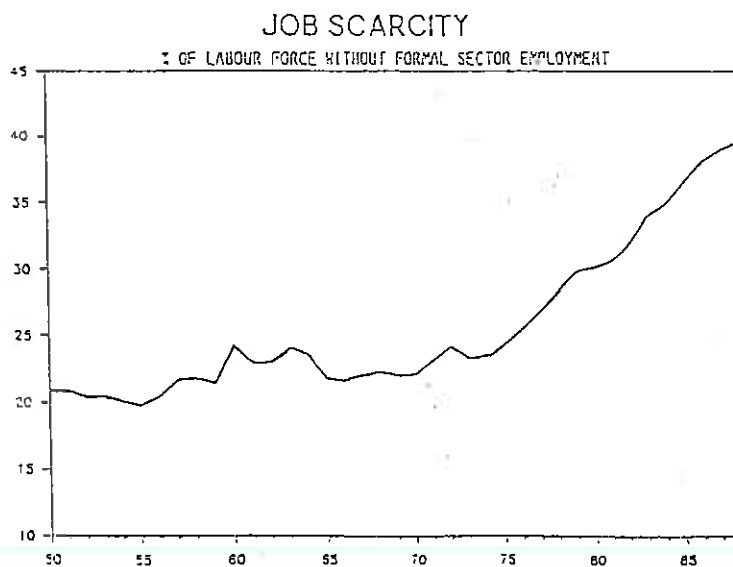


FIGURE 1.3

## 2. CHRONIC STAGELATION, JOB SCARCITY AND POVERTY

The South African economy performed exceptionally well in the forty years from 1933 until 1973. The average growth rate during South Africa's 'golden period' was almost 5 per cent annually and the real per capita income increased with almost 2,5 per cent per annum. Unfortunately the benefits of the 'golden period' were not spread equally between the four population groups. It is one of the tragedies of the South African history that during the only period when the growth rate was high enough to end the 'zerosum-game' and the 'intergroup plundering' that have become - over its modern history of 300 years - endemic to South Africa's society, we blew the opportunity.<sup>4)</sup>

Overall economic performance as measured in terms of real economic growth, employment and inflation 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 very poor performance). (Smit, 1990. See also his figures 1.1, 1.2.)

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 1993 amounted to only 1,7 per cent. Employment in the formal sector (figure 1,2) 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. The best measure of the deterioration of South Africa's economic performance is, perhaps, the statistics on job scarcity (figure 1.3.). After having managed to provide formal sector jobs for most of the new entrants into the labour market for the whole period up to the early 1970s, the economy has simply lost this capability. (Fig.2 (a) and (b) ).

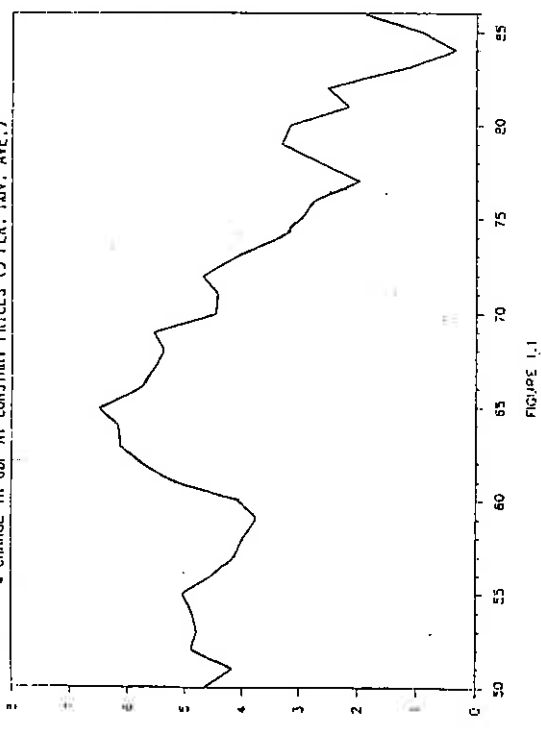
---

4) For an uninterrupted period of four decades the growth rate was high enough to end the zerosum-game but the opportunities was blown. It was mainly the whites (and especially the Afrikaners) that benefitted the most during that period and to a lesser extent also the upper half of the Coloureds and Indians, while the Blacks' position may even have deteriorated.



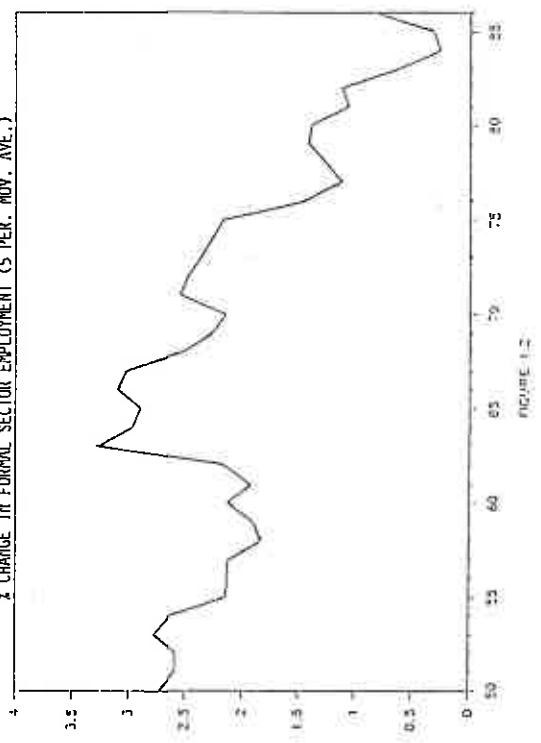
### REAL GROWTH RATE

% CHANGE IN GDP AT CONSTANT PRICES (5 PER. MOV. AVE.)

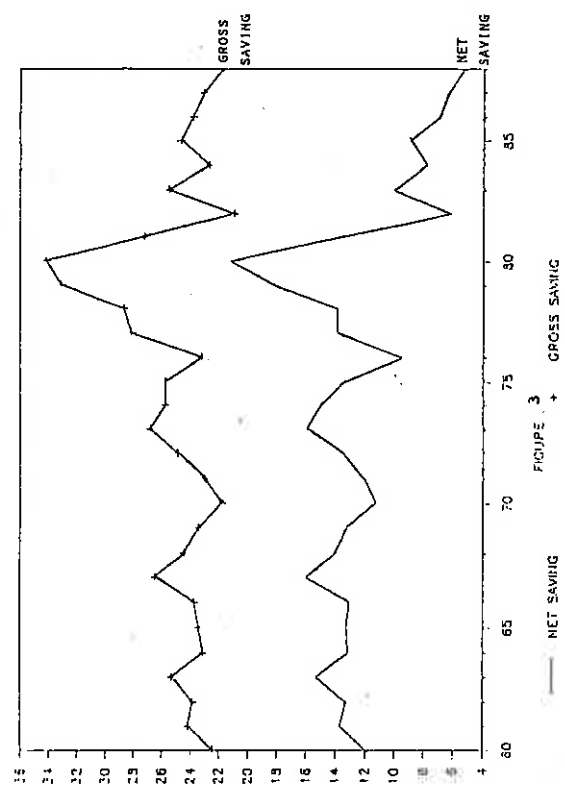


### EMPLOYMENT

% CHANGE IN FORMAL SECTOR EMPLOYMENT (5 PER. MOV. AVE.)

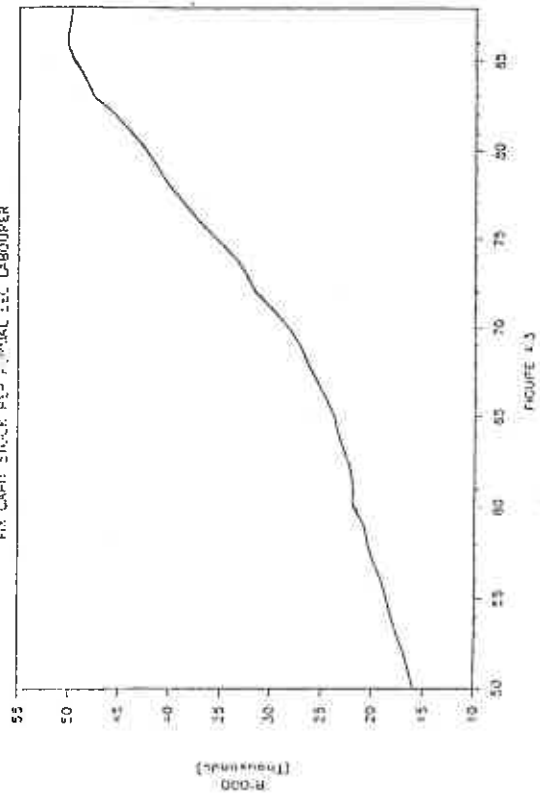


### GROSS + NET DOMESTIC SAVING AS % OF GDP



### CAPITAL PER LABOURER

FIX CAPITAL STOCK PER FORMAL SEC. LABOURER



Because of the apartheid structures and policies and because of the low growth rate since 1974, a very large percentage of the population are presently living in poverty. 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. (Statistics from Simkins' Urban Foundation Survey as quoted by the Sunday Times, September 22, 1991).

A remarkable correlation exists between the statistics on 'job scarcity' and the statistics on households living in poverty. '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. (See figure 1.3.) More or less 20 per cent of the labour force finds employment in the informal sector and in some cases it may be very lucrative. In spite of this nobody can deny the remarkable correlation between the more than 40 per cent of the labour force that cannot obtain formal sector employment and the more than 40 per cent of households living in poverty. The sharp increase in the percentage of households living in poverty and in the percentage of 'job scarcity' is not only a function of the low rate of economic growth since the early seventies. 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. The fixed capital stock per formal sector labourer has increased from ± R16 000 in 1950 to ± R48 000 in 1990 (figure 4.3). As we will show below, this considerable capital deepening has not only weakened the employment creating capacity of the economy, but also increased the economy's dependency on foreign investment.

## NATIONAL ACCOUNTS: SELECTED DATA

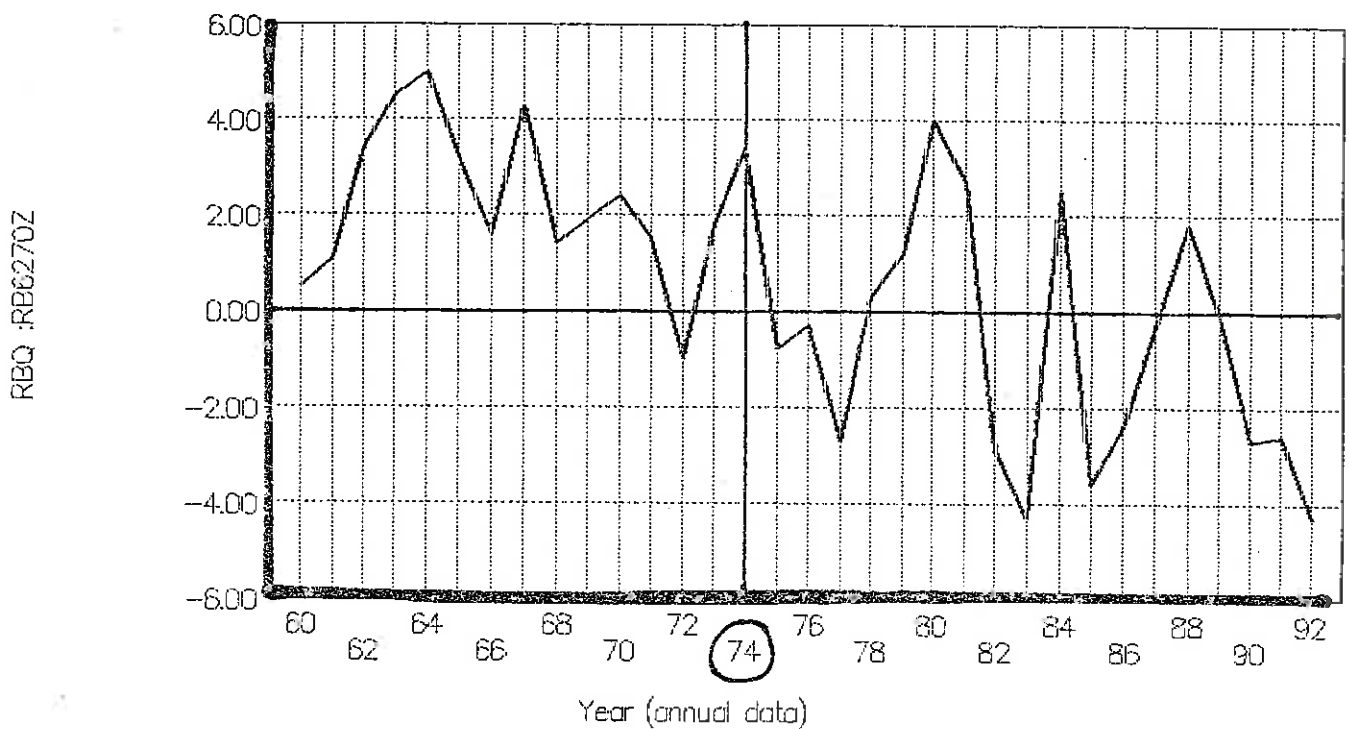
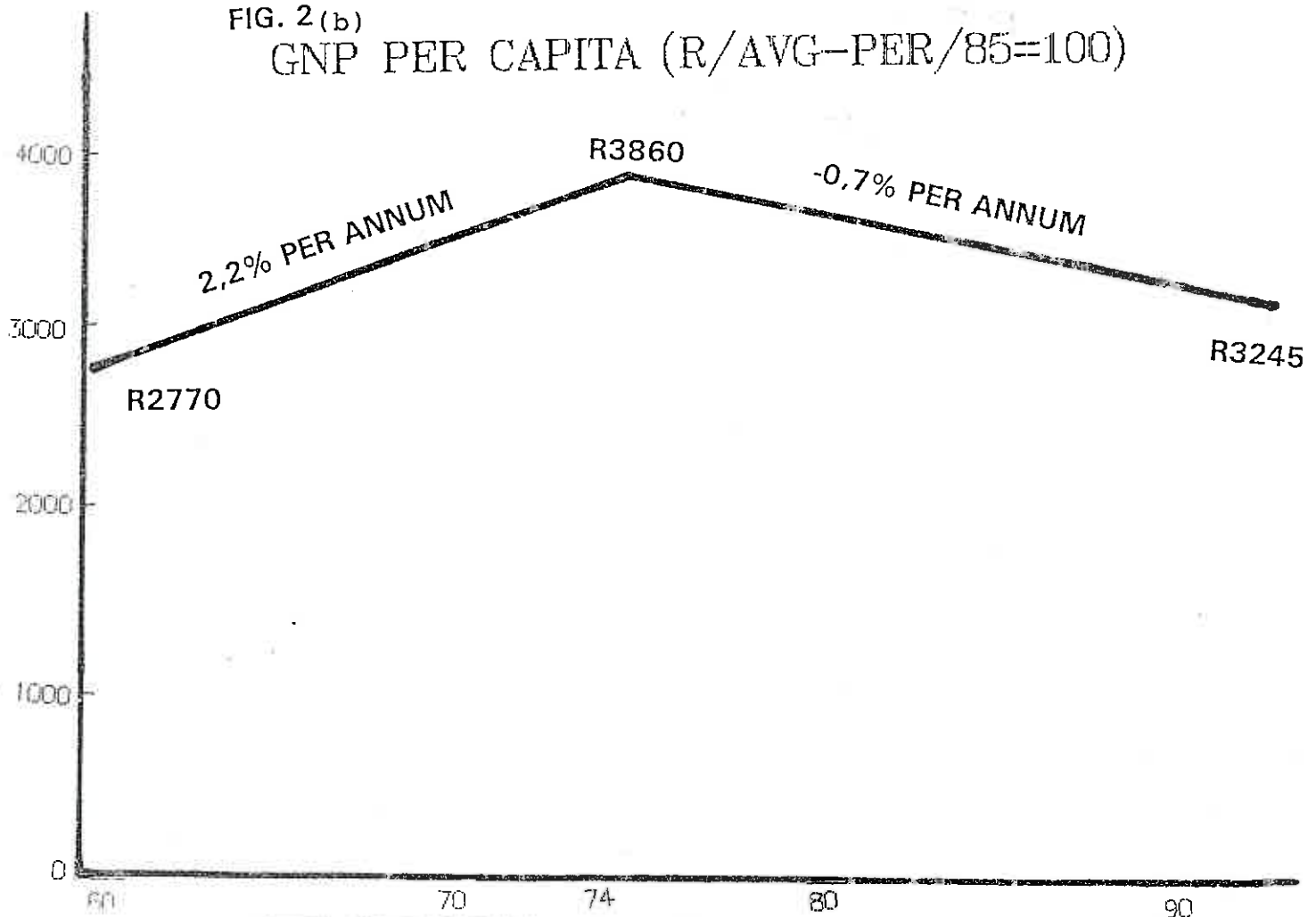
GDP PER CAPITA ( $R/AVG-PER/85=100/1-$ 

FIG. 2(b)

GNP PER CAPITA ( $R/AVG-PER/85=100$ )

The sharp increase in the capital/labour relation is partly the result of technological developments (in especially Western countries) but to a large extent also the result of the Verwoerdian policy of creating a 'white' South Africa independent of Black labour. As part of this policy the exchange rate was kept deliberately at a too high level in the 1960s and 1970s (to keep the import of capital goods cheap), the rate of interest was also kept at a very low (and sometimes negative) level to enhance investment, while tax concessions were granted on investment. At the same time not enough was spent on education - especially black education. Consequently the relative prices of labour and capital did not reflect the true scarcity values of these factors and it caused a very unhealthy capital deepening and an overall 'skew' development of the modern sector of the South African economy.

It is important to realise that a very large part of the households living in poverty and a large part of those that cannot attain formal sector employment are blacks. For all practical purposes the black population can be divided into almost equal halves, i.e. the 'Insiders' and the '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 '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 has declined by almost one per cent annually. In this period 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, decreased by more than one per cent annually. 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 the Outsiders.

The poverty problem in South Africa has become the problem of black (widely defined) Outsiders. They have become a 'forgotten' and 'frozen' 40 per cent. They are not only economically 'outsiders', 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 may have very important political ramifications in the years ahead - even if a non-racial democratic South Africa with a reasonable rate of economic growth can be attained.

### 3. SOUTH AFRICA'S GROWING DEPENDENCY ON FOREIGN INVESTMENT

My colleague, Prof. Ben Smit, analysed in two recent articles the foreign capital flows and its effects on the growth performance of the South African economy. (Smit and Mocke, 1991, and Smit 1991). Foreign capital has contributed materially to the development of the South African economy ever since the discovery of diamonds and gold in the second half of the nineteenth century. Foreign investment in the mining industry was originally very large. In 1918 the proportion of mining dividends paid abroad was approximately 80 per cent. In the period since the second world war foreign investment played quite an important role. A net foreign investment inflow was registered in 24 of the first 31 years up to 1976. Table 2 (Smit, 1991, p. 7) gives a clear indication of the influence foreign capital flows exerted on South Africa's macro-economic performance in the period after the Second World War.

**TABLE 2**  
**FOREIGN CAPITAL FLOWS AND ECONOMIC PERFORMANCE**

	Foreign financing of Gross Domestic Investment (average %)	Real Gross Domestic Product (average annual % change)	Real Gross Domestic Fixed Invest- ment (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.

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-  
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

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. It was unfortunately not possible to determine what proportion of the outflows actually represents capital flight in the sense of capital 'fleeing' from abnormal domestic risks. (See Smit & Mocke, 1991, p. 106.)

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. What will it take to turn this 'vicious circle' into a 'virtuous circle'? This question should be on our minds every day. Probably nothing less than a political settlement will be needed to turn the tide.

Another factor that has increased South Africa's dependency on foreign investment is the sharp drop in real net domestic savings. (See figure 3.). 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.

Prof. Ben Smit estimated that with a capital/output ratio of 3,2 per cent and a savings ratio of 6,8 per cent, South Africa needs \$11 billion annually from 1991 to 2000 to attain an average growth rate of 5 per cent or \$7 billion annually to attain a 4 per cent growth rate. 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.

Will it be possible to invite the needed amounts of foreign capital to South Africa? We should take note of the fact that we are presently living in an 'investment scarce' world. The USA has become a debt country and continues to borrow more from other countries than lending to them. The countries in Eastern Europe and especially the Soviet Union need billions and billions of dollars of foreign investment. The countries in Western Europe - and especially Germany - are inclined to canalise their foreign investment in an eastward direction. What about Japan? Perhaps.

#### 4. SOUTH AFRICA'S ECONOMIC FUTURE

Even if the political transition towards a non-racial and democratic post-apartheid South Africa can take place relatively smoothly, the new democratic governments will - in (say) the first two decades of the New South Africa - have a formidable task to rebuild, to restructure and to democratise the South African economy. It should be done in an attempt to change the present rather disfunctional 'capitalist' system, into a more functional one that will promote the Social Welfare of the total population. The economic challenge of the future can be reduced to the following three main tasks:

- (a) we must succeed in moving the economy onto a higher growth path and to maintain it at that higher growth path;
- (b) we must succeed in bringing about greater equity and fairness in the distribution of income and opportunities; and
- (c) we must implement - at least over the long run - 'restructuring measures to bring about a fairer or more equitable distribution of 'property, power and control'', and in doing this change the market-orientated economic system in ways that will render it more functional for the promotion of the social welfare of the total population.

(a) A higher growth rate

As indicated above, we will only succeed to move the economy onto a higher growth path, of say 5% annually, if we can invite \$11 billion foreign investments annually or to 4 percent if we can invite \$7 billion. To create conditions that will be stable and attractive enough to invite these amounts of foreign investment, it will first of all be necessary to reach agreement about a 'fair' and 'equitable' constitutional dispensation and restore social stability.

What will the economic situation be after a constitutional settlement has been reached? Even if we succeed at that stage to invite relatively large amounts of foreign investment and the economy is moved onto a higher growth rate (of say 4 per cent annually), the new (democratic) government should be very sensitive towards the conditions necessary to maintain the economy on that higher growth path. It is reasonable to expect that very high (and escalating) demands for redistribution and for poverty relief measures will be generated by the new democratic parliamentary system. Although I have very strong sympathies for such demands - as I will explain below - the new government should be brave enough to resist the (unrealistic) pressure to do 'too much too soon' as far as redistribution is concerned. Because of the large dependency of the South African economy on foreign investment, the new government must continuously go out of its way to maintain - uninterruptedly - conditions stable and attractive enough to invite the necessary foreign investment.

I realise that the on-going dependency on foreign investment - and therefore on the attitude and the goodwill of corporate capitalism in Western countries and Japan towards the New South Africa - will not be popular in all circles and will in due time create all kinds of political tensions and frictions. But unfortunately we will remain dependent on foreign investment for quite a long period of time. In the meantime we can try to do things to decrease this dependency. We can try to lower the capital/labour ratio by introducing labour intensive technology and/or appropriate technology. Such policies should enjoy a high priority. Unfortunately, it will not be possible to attain substantial progress in lowering the capital/labour ratio

in less than (say) 20 years time. We can also try to increase net savings as a percentage of GDP from its present level of  $\pm 7\%$  to (say) at least  $10\%$ . But given the additional demands a democratic system will generate on the fiscus and on the economy, it will also not be easy to increase net savings.

It is not only the level of growth that will be important, but also the type of growth. It is of strategic importance that structural adaptation should take place in the manufacturing sector that will enable South Africa to develop a capacity to export manufactured products - and especially black labour embodied manufacturing products. It will for a variety of historical, cultural and geographical reasons not be easy for the South African manufacturing sector to improve its international competitiveness. But to attain a moderate degree of success, the trade unions will have to display a high level of discipline, patience and tolerance.

The temptation will be very high for the trade unions to use their bargaining capacity to get the best possible deals against the corporate sector. But given the high level of job scarcity and the widespread poverty in the ranks of the Outsiders, the trade unions should take a long term view and try to play a constructive role in the rebuilding of the South African economy. While one can appreciate the role a trade union (like COSATO) is presently playing as part and parcel of the power struggle for a new constitutional dispensation, the role of Cosatu and similar trade unions will have to play in a new democratic South Africa is fundamentally different from its present role. Although it will not always be easy to adapt to their new role, it is important that trade unions should prepare themselves - already at this stage - for their new role.

To create and to maintain conditions that will over the long run be conducive to economic growth, it may be necessary for the state, the business sector and the trade unions to enter into a kind of 'corporatist' agreement. Such an agreement can (or should) come about as an extension of the constitutional agreement. While the constitutional agreement will hopefully have a more permanent character, the corporatist agreement on the economy will have to be renegotiated regularly. A 'corporatist economy' should be of such a

nature that it can be instrumental to address the unequal distribution of 'property, power and control'. (See (c) below.

**(b) Redistribution of income and opportunities**

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 still be necessary to complement it with redistributive measures especially in the form of increased social spending on blacks to improve their socio-economic position. Poverty relief programmes aimed at the Outsiders should enjoy a high priority when social spending is increased.

According to estimates made by Servaas van der Berg we can increase the per capita primary plus secondary income (i.e. personal income plus social spending per capita) of blacks from R2 800 in 1990 to R4 000 in 2000 (1990 prices) if we can maintain an average growth rate of 4 per cent annually and if social spending (on education, health services, housing and welfare) can be increased to 15 per cent of GDP and if all the additional "social spending" is spent on blacks. The amount spent on social services for blacks alone will then be more or less 10 per cent of GDP in contrast with the 6 per cent of GDP being spent on them presently. The living standards of blacks will then still be five times smaller than those of whites. The living standards of blacks will, none the less, then be 40 per cent higher than what it is today. I realise that an improvement in the distribution of income and opportunities of this magnitude will not be regarded as sufficient after 120 years of exploitation and deprivation in the colonial and apartheid periods. If an average growth rate of 5 per cent could be maintained annually until 2000 and if social spending could be increased to (say) 17 or 18 per cent of

GDP, the redistribution effect in favour of blacks will be dramatically higher.

To bring about a somewhat more equitable and just distribution of property and land, the new government could consider the introduction of a wealth tax. A property tax of say a quarter or a half per cent could be levied on all wealth in excess of R100 000. This tax could be maintained for 20 or 30 years. The proceeds of the tax could be deposited in a Restitution Fund and used to subsidise land reform, house projects and small business development. The purpose should be to open opportunities for disadvantaged and deprived groups. The benefits of such a tax are that it will have a relatively small negative effect on economic initiative and that it could be seen as a symbolic measure to rectify some of the unjust practices of the past.

(c) The restructuring of the power relations during the next 5 to 10 years

An overview of the South African economy will be incomplete without focusing on the sharp polarisation that has developed between the ANC-alliance on the one hand and the Compact of Power (The Establishment) on the other hand. From an economic point of view, this polarisation between the Alliance and the Establishment must be regarded as a very unfortunate one - especially if one interprets it in the necessary historic perspective. Before addressing the need for a restructuring of the power relationships to replace the polarisation with a network of pluralistic power realtions, it may be illuminating to put the "power-game" in South Africa in its proper historic perspective.

From an economic point of view the South African history over the last 340 years, can be described as a very unfortunate zero-sum game. According to this game, clearly identifiable groups - cultural, ethnic, colour and language groups - were chronically involved in a relentless struggle to get hold over scarce productive resources. The ensuing power struggle between the groups was a last resort a series of on-going little "economic wars" in which the different groups attempted to improve their relative economic position by plundering other groups. As has been the case in Europe during the period of Mercantalism, "plundering" has proved to be a more

important activity for economic advancement of group interests than "production".

In sharp contrast to the other so-called New Europes - that have been established during the period of European Colonialism from the 16th to the 18th centuries - South Africa has not experienced a melting-pot process. It remains very much a divided, group-organised and group-orientated country. One of the main purposes of the apartheid policy has been to maintain the so-called identity of the different ethnic, colour and language groups. Especially over the last four decades, deliberate measures were enacted to "roll back" the melting-pot process. The group character of the South African "society" has been the main cause of the chronic strife and conflict and the endemic instability characteristic of the South African history. Shortly after the Cape became a permanent British colony in 1814, tension developed between the colonial power and the White Afrikaans-speaking farmers or Boers. The mainly nomadic farmers in the Eastern Cape were dissatisfied with the lack of protection the colonial authorities provided against the Xhosas. This controversy was an important cause of the Great Trek from 1834 to 1838.

During the second part of the nineteenth century the British colonial authorities in both the Cape and Natal were involved in bloody battles with the Xhosas and Zulus before their resistance was broken. The English-speakers (with the support of the British government), succeeded in forcing the Blacks into submission. The original modern structure of an apartheid South Africa was created by the British colonial authorities as part and parcel of the process of modernisation after the discovery of diamonds and gold in the second half of the nineteenth century<sup>5)</sup>.

After the discovery of diamonds and gold, all kinds of conflicts developed between the two white groups, especially in the northern

---

5) During the first half of this century the English-speaking establishment governed South Africa almost uninterruptedly. During that period the governments of Botha and Smuts enacted all the essential aspects of an apartheid system. The British historian Paul Johnson is correct in his statement that 'all the structural essentials of white supremacy and physical segregation existed before the United Party (of Jan Christian Smuts) lost power to the Boer Nationalists in May 1948', Paul Johnson, *A History of the Modern World - from 1917 to the 1980s*, (London: Weidenfeld & Nicolson, pp 521-2).



part of the country. These conflicts reached a climax during the Anglo-Boer war of 1899 - 1902. This war and the animosities it created set the stage for the future pattern of interaction between the two white groups during the twentieth century. At the end of the 19th century the British colonial forces succeeded to submit all groups to its superior economic and military power.

For the greater part of the 20th century Afrikaner nationalism was mobilised to counteract the political, economic and colonial 'powers' of the English-speakers and their real and alleged exploitative effect on Afrikaner interests. The internal 'struggle' against the English-speakers was, in the minds of many Afrikaners, nothing but an extension of the unequal international war between Great Britain and the two Boer republics. Almost immediately after taking office in 1948, the National Party (NP) put a three-pronged programme into operation to promote the interests of Afrikaner nationalism. New discriminatory laws were added to the existing arsenal and also extended to Coloured and Indians; the bureaucracy was systematically enlarged and additional parastatals developed to create lucrative employment, mainly for Afrikaners; while a variety of welfare programmes were launched to redistribute wealth and uplift poor-Whites, who were mainly Afrikaners.

From the middle of the 1960s the power struggle between the two white establishments started to abate. The years 1965-90 can be regarded as a transitional phase in which the National Party replaced its traditional close alliance with the agricultural sector with a closer alliance with Afrikaner business and with sections of the English-speaking business community. During these years the new alliance was epitomised by the friendlier relations between Pretoria, the symbol of the Afrikaner oriented bureaucratic state and Johannesburg, symbolising the English-speaking oriented corporate sector. Since 1990 the Afrikaner and English-speakers have become a single Establishment as part of a (White) Compact of Power. (See Fig.5).

The power relationships that were created when the Union of South Africa came into being in 1910, is to a large extent still in place. The only important change that has taken place over the last 80 years was that the Afrikaners - given their greater numbers - succeeded in

consolidating their political dominance and used it to improve their economic position quite considerably.

During the first half of the century the position of the English-speaking whites - who were only 8 per cent of the population - was powerful enough to enable them to improve their economic position in absolute and relative terms *vis-a-vis* all the other groups. During the third quarter the Afrikaans-speaking whites - only 12 per cent of the population - succeeded in monopolising political power to such an extent that it could improve their economic position quite considerably in both absolute and relative terms *vis-a-vis* all other groups. (See Fig.4).

The political and economic changes that took place since the middle of the 1970s were perhaps the most fundamental in the changing power play since Union in 1910. In 1973 Black workers maintained an illegal strike for months. The coup in Lisbon in April 1974 precipitated the independence of Angola and Macambique in 1975. The 1976 Soweto uprising swung the balance in the power struggle between white and black for the first time towards the blacks. After Soweto, South Africa reeled under both political and economic crises as widespread capital flight was induced and disinvestment became the official policy of many countries. In 1984 another important turning point took place in the power struggle. In September of that year the tricameral parliament was introduced with separate chambers for the Coloured and Asian population. The blacks were still excluded from parliamentary participation. The United Democratic Front (UDF), which was formed in 1983 to oppose the new constitution, played a major role during the rest of the 1980s in co-ordinating the mass democratic movement against apartheid. The combined effect of the mass movement and mounting pressure from the major Western countries at long last convinced the De Klerk-government to unbanned the Liberationist movements in February 1990, to release Mr Nelson Mandela from prison and to initiate the negotiation process for a democratic post-apartheid South Africa.

**RELATIVE AND ABSOLUTE SHIFTS IN THE  
ECONOMIC POSITIONS OF DIFFERENT GROUPS  
1902-1992**

	AFRIKAANS		COLOURED						
	ENGLISH		ASIANS		BLACKS				
1902	WIN IN ABS. & REL. TERMS	WIN SLIGHTLY IN ABS. TERMS LOOSE IN REL. TERMS	WIN SLIGHTLY IN ABS. TERMS LOOSE IN REL. TERMS	WIN SLIGHTLY IN ABS. TERMS LOOSE IN REL. TERMS	WIN SLIGHTLY IN ABS. TERMS LOOSE IN REL. TERMS				
1934	WIN IN ABS. AND REL. TERMS	START TO WIN IN ABS. AND REL. TERMS	WIN IN ABS. TERMS LOSE IN REL. TERMS	WIN IN ABS. TERMS LOSE IN REL. TERMS	WIN IN ABS. TERMS LOSE IN REL. TERMS				
1948	WIN IN ABS. TERMS LOSE IN REL. TERMS	WIN IN ABS. & REL. TERMS	WIN IN ABS. TERMS LOSE IN REL. TERMS	WIN IN ABS. TERMS LOSE IN REL. TERMS	WIN IN ABS. TERMS LOSE IN REL. TERMS				
1973	LOSE IN ABS. & REL. TERMS	LOSE IN ABS. & REL. TERMS	WIN IN ABS. & REL. TERMS	WIN IN ABS. & REL. TERMS	<table><tr><th>"IN"</th><th>"OUT"</th></tr><tr><td>WIN IN ABS. &amp; REL. TERMS</td><td>LOSE IN ABS. &amp; REL. TERMS</td></tr></table>	"IN"	"OUT"	WIN IN ABS. & REL. TERMS	LOSE IN ABS. & REL. TERMS
"IN"	"OUT"								
WIN IN ABS. & REL. TERMS	LOSE IN ABS. & REL. TERMS								
1992									

In his first public address after his release on the 11th of February 1990, Mr Mandela said:

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

This is a very meaningful sentence. With it Mr Mandela defined the South African problem in a nutshell: the inequality of political power and control, the inequality of economic power and control and the inequality of property, opportunities and income. Consequently, it will only be justifiable to talk about a New South Africa if and when the reform process can "deliver" three things during the next decade or two: an appropriate system of democracy without white control and/or (white) minority protection; an appropriate economic system of democratic capitalism - hopefully based on the philosophy of social democracy; and, lastly, a more equal distribution of property, opportunities and income - more equality between individuals and between the groups.

The centuries-long conflict between groups has lately crystalised in the sharp polarisation between two Power Blocks - the Alliance between the ANC, SACP and Cosatu on the lefthand side of the spectrum and the Establishment on the righthand side of the spectrum. The POWER of the Establishment is based on the Power of five Ps: the Power of the Bureaucratic State, the Property of the Corporate Sector, the Privilege of the NP to govern the country while only 6,3 per cent of the potential electorate voted for it in the 1989 election, the Propaganda of the mainstream Media and the Professionalism of a variety of Professional groups. (See figure 5).

The Power of the Establishment is organised and structured in a different way from that of the Power of the Alliance. The Power of the Establishment is structural power. It is based on the close "compact" between the five power blocks ( $P \times P \times P \times P \times P = P^5$ ). It is Power to the Power of Five. It is a formidable power block.

The Power of the Alliance is potential power. It is based on "people's power". In contrast to the "structural" power of the



[illegible]

**p+p+p+p+p+p+p+p+p+p+p+p+p+p**  
**p+p+p+p+p+p+p+p+p+p+p+p**  
**= people... 10 million?**

$$P_x P_x P_x P_x P = P^5$$

## POWER TO THE POWER OF FIVE

## "COMPACT OF POWER"

## THE ESTABLISHMENT

# STRUCTURAL POWER

Establishment, the Alliance can claim moral support especially in the international arena. The power of the Alliance finds expression in "mass actions" and "street power". Its full potential can only be tested in an Election.

In spite of the progress made with negotiations, the "hostility" and "conflict" between the Alliance and the Establishment remain unresolved. An important reason for the on-going tension is the sharp differences in the nature of each group's Power and the sharp differences in moral orientation. The Alliance and the Establishment represent "schemes of values" that can hardly be further apart. The Alliance and the Establishment are worlds apart. The sharp polarisation between the totally differently organised power blocks of almost equal strength (or equal weakness) put us in the worst of all worlds. If this polarisation should be perpetuated, it will cause an escalation of violence and it can even lead to civil war. In the place of the polarised power blocks we need a network of pluralistic centres of power operating as countervailing forces against one another.

It seems as if many people (especially Whites) are under the impression that the reform process' only task is to establish a new political system. Those people understand neither the structural dimensions of the South African problem, nor the need to restructure the power relations and especially the relation between the new government and other centres of power like the bureaucracy, the corporate sector, the media and the different professional groups. We should realise that a new political dispensation is only the first step *en route* towards a New Society in South Africa with the necessary stability, national unity, legitimacy and with a capacity for sustainable economic growth.

The importance of a political settlement and an Election is mainly to legitimize South Africa - especially in the eyes of the international community. Before the "new" system can attain the necessary internal legitimacy and long term stability and economic growth, an appropriate "power elite" - comprising the different centres of power - must come into being over the next 10 years. To accomplish this we will need important "powershifts" - if I can use Alvin Toffler's word. Toffler distinguishes between a "power shift" (two words) and



a "powershift" (one word). He described a "power shift" as a "transfer of power" and a "powershift" as a "deep-level change in the very nature of power ... It transform power". The necessary restructuring of power relationships in South Africa cannot be accomplished without important powershifts.

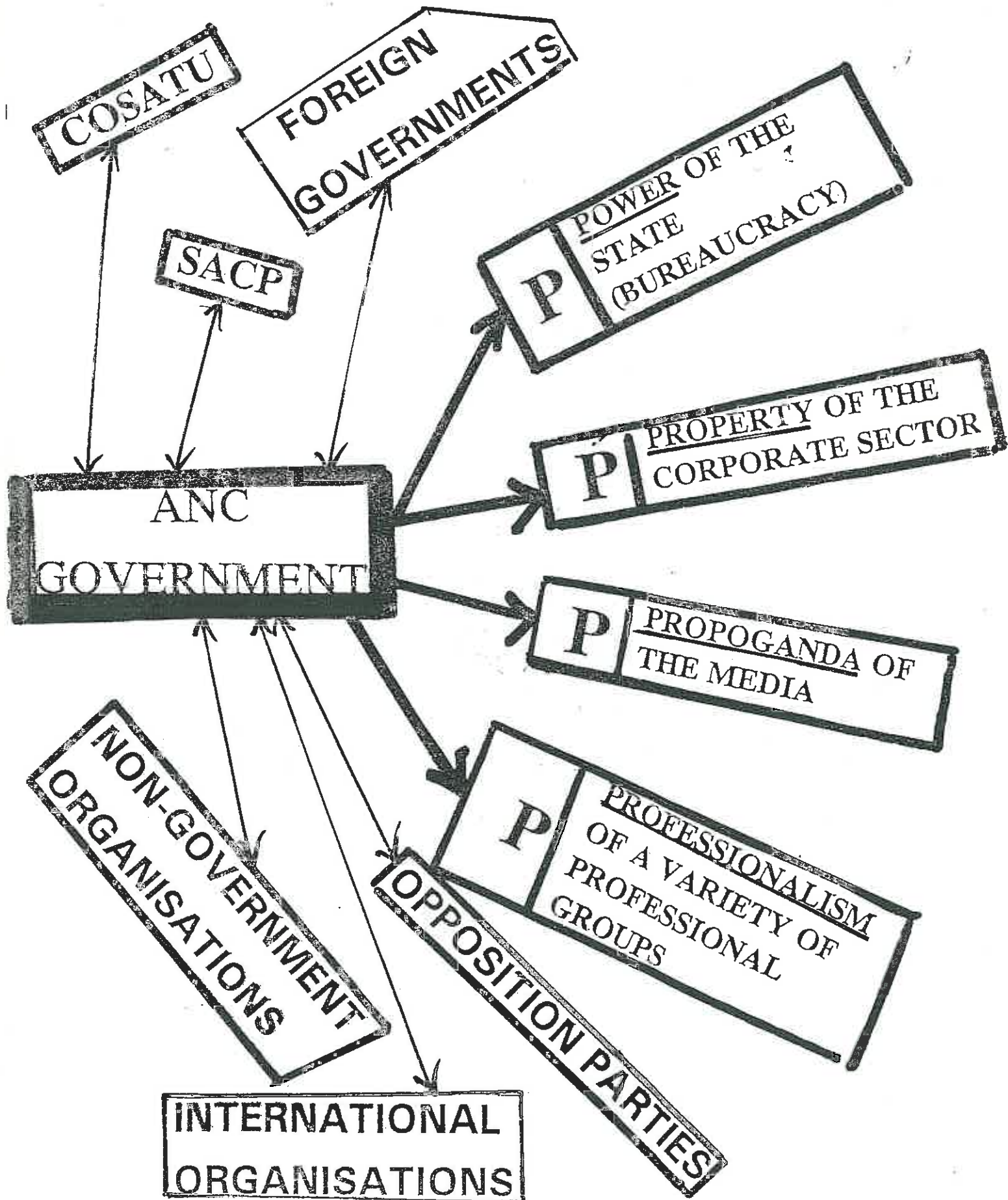
To develop a network of pluralistic centres of power, it will be necessary to disentangle both the Alliance and the Compact of Power (or Establishment) in order to create the necessary "Space" and "Opportunity" for the majority government (in all probability an ANC-government) to build newly-developed and independent (power or structural) relationships with the Bureaucracy, the Corporate sector, the mainstream Media, the different Professional groups, non-government organisations, etc. (See Fig. 6).

It will not be easy to create the necessary "space" or "opportunity" for the new government to build these independent relationships with the main centres of power under control of the white community. We must be aware of several possible detailments that can occur *en route* towards the needed "network of pluralistic centres of power".

A first derailment can occur if the Establishment should succeed in co-opting the new majority government. In Establishment circles the current wisdom is that the "Compact of Power" should remain as intact and "united" as possible and that it should make an all-out attempt to co-opt the ANC-government into its own "Compact". When Pres. de Klerk talks about power sharing he is actually talking about a formula that will enable him and his Establishment to co-opt the new government into the Bourgeois Establishment. If Mr De Klerk and his Establishment should succeed in doing this, we will not create conditions conducive for economic growth. If the ANC leader core is co-opted by the Establishment, it can easily invite another Struggle. We certainly cannot afford this.

A second possible derailment can occur if a new government should try to extend its political "dominance" also over other centres of power like the bureaucracy and the corporate sector. Such action on the part of the new government will boil down to an attempt to co-opt the Establishment into the ranks of the Alliance. It certainly cannot be successful over the long run. It will also not be conducive to

# RESTRUCTURING OF THE POWER RELATIONSHIPS DURING THE NEXT 5 TO 10 YEARS



economic growth. It can also invite a new Struggle - this time from certain White circles.

A third possible detailment can take place if the Establishment should succeed in maintaining the "unity" of its "compact of power" and remain for that matter "hand in glove". If this should happen the still "united" Establishment will be in a position to block the restructuring process and deprive the new government of the "space" and "opportunity" to build independent relationships with each of the component parts of the Compact of Power. In this eventuality, the restructuring process will be stopped in its tracks. This will also create a situation that will not be conducive to economic growth. Over the long run the situation will also be very detrimental for attempts to build a new nation, to restore stability and to promote economic growth.

A fourth possible detailment can occur if one of the White power blocks - for example, the corporate sector - should succeed to co-opt the leader core of the ANC-government. We must not regard this as a too remote possibility. The relationship between the ANC-government and the different power blocks in the Bourgeois Establishment must change from a "hate-hate relationship" into a "hate-love relationship". It is not impossible that in some cases it can swing around and become a "love-love relationship". We must not underestimate the Corporate Sector's ability to co-opt all or a part of the leader core of the new government. We cannot afford this to happen. We do not need new "compacts of power". We need a network of pluralistic centre of power operating as countervailing forces.

What are the chances of developing the needed pluralistic network of centres of power? I am tentatively optimistic that we can accomplish this. Although we cannot afford to underestimate the centrifugal forces present in the South African society, a lot of promising factors are also noticeable. It will not be possible for a new government (given its lack of experience) to govern the country without a good working relationship with the (Afrikaner-orientated) Bureaucracy. Similarly, it will also not be possible for a new government to govern the country without a good working relationship with the (mainly English-speaking) Corporative Sector. If the mainstream media should continue with its sharp and sometimes vicious

criticism against the ANC, it will be very hard for an ANC-government to govern the country. Some or other understanding will have to be developed between the new government and the Media in the interest of both. It will also not be possible for an ANC-government to govern the country if it does not acknowledge the integrity and the value of the different Professional groups. If we take cognizance of the high degree of dependency that already exists between the different centres of power, we have reason to be optimistic about the restructuring process.

It will none-the-less not be easy to accomplish a new "structure of power". As in the case of many other things, we South Africans cannot go it alone. We need international involvement to prevent the possible derailments mentioned above. Such derailments can block the needed powershifts en route towards the new network of power relationships. There can be little doubt that an international organisation like the World Council of Churches has a key role to play - also from a moral point of view - to facilitate the restructuring of South Africa in the decade after the new constitution has come into place. How the WCC should play its role to facilitate structural change and powershifts is not for me to say. All I can say is that international organisations like the World Council and several others can and should promote the restructuring process. They can act independently or through non-governmental organisations.

But let me add a final word. Even if we can attain extraordinary success in the restructuring process, we would still need something else. Given our long history of group conflict and group strife, we also need a unifying ethos. We need an inclusive South African "ideology" as a magnetic force strong enough to counteract the endemic sectionalism and "groupism" and to conquer the centrifugal forces. How to cultivate the needed unifying ethos deliberately, I do not know. But it will be necessary to cultivate it deliberately. On one issue, however, there cannot be any doubt. It will only be possible to develop such a unifying ethos if the Whites can get rid of their superiority complex and can accept and treat all their countrymen as equal and as equivalent citizens.

### REFERENCES

- Johnson, P., "A History of the Modern World - from 1917 to the 1980s".
- Smit, B., 1991, "Structural Trends in South African Macro-economic data", Department of Economics, University of Stellenbosch.
- Smit, B., 1991, "Foreign capital flows and economic growth in South Africa", paper presented to the Biennial Conference of the Economic Society of SA, Stellenbosch, 2 - 3 October, 1991.
- Smit, B. and Mocke (1991), "Capital flight from South Africa : Magnitude and Causes", *SAJE*, Vol.59(2), 1991, pp.101-117.
- Van der Berg, S., (1991), "Prospects for Redistribution of primary and secondary income in the transition to democracy", paper to the Biennial Conference of the Economic Society of SA, Stellenbosch 2 - 3 October, 1991.