A COMPARISON OF THE SOCIAL SECURITY SYSTEMS OF SWEDEN, GERMANY AND THE UNITED STATES: POSSIBLE LESSONS FOR SOUTH AFRICA[*]

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1. THE FOUR WORLDS OF CAPITALISM

We can make a relatively clear distinction between four worlds (or models) of capitalism in the OECD countries. Each one of these forms is organised around a different *ideological* principle, while the social stratification and integration in the four worlds are strikingly different[1]. The four forms have their origins in different historical patterns and follow qualitatively different development paths. The four worlds of capitalism are the following:

(i) Free market capitalism in the British-American world, obviously based on the ideology of *liberal capitalism*;

(ii) Social democratic capitalism in the Scandinavian and Benelux countries, mainly based on the ideology of *social democracy*;

(iii) Social market capitalism in Continental countries such as Germany, France and Italy. In contrast to the liberal capitalist countries, these countries do not claim to have a system of *free* market economies, but *social* market economies;

(iv) Familistic capitalism or corporate capitalism in Japan. We could say that, because Japan is an island with a homogeneous population with a long common history based on a strong unifying ethos, Japanese capitalism is based on a "familistic" and/or "corporatist" ideology.

In this paper I want to concentrate on only two aspects of the four worlds of capitalism.

(i) Firstly, on the kind of welfare state system in the first three worlds and the extent (degree) of *decommodification* of labour that has been achieved by each of these worlds' welfare state system;

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[1] This paper is to a large extent based on Esping-Andersen, G., *The Three Worlds of Welfare Capitalism*, Princeton, Princeton University Press, 1990 and on Esping-Andersen, G., (ed.) *Welfare States in Transition*, SAGE Publications, London, 1996.

contribution of the *etatistic* approach (with its paternalistic conception of the state) to the rise of the welfare state lies in its elimination of *suspicion* against the state, which claimed that the state is not a suitable agent to be entrusted with the solution of social problems (and with the decommodification of labour)[3]. A political scientist, Martin Harrod, describes France and Japan as "state societies" because of the strategic role that the government still plays in these countries and because of the close co-operation between the private and public sectors. Harrod describes Britain and the USA as "state-less societies" because of the hostility of the private sector towards the government in these countries[4]. Harrod did not devote any attention to Germany in his book, but he would have described Germany - and the Scandinavian countries - as "state societies" as well.

3.2 The liberal welfare state model of British-American countries

This model was designed to provide a minimum of social security to those who were really needy. Those who wished to receive this kind of help had to demonstrate their "needy" economic position through a *means test*. The intention of this model was to create - in the midst of an economic crisis - an appropriate "safety net" for the poor so that they would not be plunged into inhumane poverty and distress. The *liberal* model proceeded from the assumption that the economic life of a country should normally be left to the unhampered operation of the *market mechanism* as fully as possible. At the end of the 19th century and the beginning of the 20th century dogmatic free marketeers were of the opinion that the market would spontaneously resolve problems of unemployment and poverty and that the state's social function should be kept to a minimum.

The proponents of *laissez-faire* capitalism or *liberalism* (especially in Britain and the USA) were opposed to any interference with the *automatic* operation of the market mechanism because this would hinder the allegedly spontaneous tendency of the market to move to the almost "sacred"

[3] Both the *corporatist* view of society and the *etatist* view of society in the Continental countries stand in the 19th century in sharp contrast to the excessive individualism, the liberal view of the state and *laissez-faire* capitalism of the British-American world. The huge nineteenth-century discrepancy regarding conceptions of *human beings*, *society* and the *state* between the Continental and British-American countries is today no longer as great as in the 19th century. But it is, nonetheless, not possible to understand the present differences in government policies and economic systems in Continental countries, on the one hand, and the British-American countries, on the other, without taking into account the traditional differences between the conceptions of *human beings, society and the state* in these two worlds.

[4] Harrod, M. (ed.) *Power and Policy in Liberal Democracies*, Cambridge University Press, 1992, p 9. "State society such as France and Japan [and Sweden and Germany] defer to State authority and regard state intervention in many

equilibrium of supply and demand. During the 19th century these liberals claimed that if the government introduced a *minimum wage* and poverty relief programmes, this would not eliminate the problems of unemployment and poverty, but would actively contribute towards their continuation.

Even after the First World War, the British-American countries with a *liberal* welfare model were still reluctant to introduce a welfare state. The USA was persuaded only during the Great Depression, when economic *inequalities* and economic *instability* had such a disruptive effect that the survival of capitalism was jeopardised. *Economic* considerations (and most certainly not *political, social* and/or *moral* considerations) thus played a decisive role when these countries began their social security systems[5]. Because of the conspicuous use of the means test to determine who qualifies for government support, there is in these countries a humiliating stigma attached to receiving poverty relief from the government. (See table 5 below).

The welfare state ultimately instituted in Britain (and later also America) was not created on the basis of *social* and *political* considerations, as was the case with the *conservative* model. It was also not instituted on the basis of *moral or humane* (or social rights) considerations, as the case with the *social democratic* model. It was introduced in Britain and the United States when large-scale poverty and unemployment *became a threat to the survival of market-orientated capitalism.* It was introduced in 1909 in Britain and in 1933 in the USA[6]. The American system was extended by President Johnson's Great Society. The American system remains, however, "underdeveloped" in comparison to the European system. (See table 1 and 3-6).

TABLE 1

PUBLIC EXPENDITURE ON SOCIAL PROTECTION AS A PERCENTAGE OF GDP

1990	
USA	14,58
European Community	21,69
Other OECD countries	21,15

sectors an legitimate ... 'state-less' societies [like the USA and Britain] are more sceptical on the right, and the ability, of the state to load society", pp 9-12.

[5] It is rather interesting (and ironic) to compare the moral conceptions of the *conservative* and the *liberal* models in the 19th century. While the *conservative* approach fears that unbridled competition will cause irreparable damage to society, to mutual human relations and to moral norms and standards, the *liberal* approach claims that social protection by government will lead to moral corruption, extravagance, idleness and drunkenness.

[6] The welfare state in Britain remained relatively small until 1945 when Attlee extended it in accordance with the Beveridge Report. From 1945 to 1979 Britain's welfare system was not in accordance with the liberal model. The Thatcher government retrenched it quite dramatically and restored its neo-liberal pattern.

Source: Esping-Andersen, 1996, p 128.

3.3 The social-democratic welfare state model of the Scandinavian countries

The aim of this model is both to make income and the traditional socio-economic stratification *more equal* and to eliminate the unnecessary and unacceptable *inequalities* and *injustices* "produced" by capitalism as completely as possible. This model proceeds from the assumption that all people have certain "social rights" and that the state is responsible for providing and protecting these "social rights". According to this model the state has a responsibility to provide a relatively high minimum level of *universal* social services to all its citizens and to recover the costs for this from the taxpayers. While the British-American and the German-French welfare state systems were introduced to rescue *(conservative) political* systems and *(liberal) capitalism* respectively from decline, in the *social-democratic* welfare state system *moral* and/or *human* considerations played a decisive role.

The only part of the world in which a welfare state had been significantly established before the Second World War was the Scandinavian countries. In these countries socialist-orientated coalition governments came into power before the Second World War. These were the so-called *red-green coalitions*, consisting of the relatively left-wing (red) labour parties and the dissatisfied small farmers (green). In this way the lower classes were able to mobilise political power (in a joint mobilisation of poor workers and poor farmers). The political power obtained in this way was used to develop a welfare state.

In Scandinavia and in Europe welfare state construction in the post-war period implied, according to Esping-Andersen, much more than a mere upgrading of existing social policies.

> "In *economic* terms, the extension of income and employment security as a citizen's right, meant a deliberate departure from the orthodox of the pure market. In *moral* terms, the welfare state promised a more universal, classless justice and solidarity of "the people", it was presented as a ray of hope to those who were asked to sacrifice for the common good in the war effort. The welfare state was therefore also *a political project of nation building*, the affirmation of liberal democracy against the twin perils of fascism and bolshevism"[7].

[7] Esping-Andersen, G., "After the Global Age? Welfare State Dilemmas in a Global Economy" in EspingAndersen, (ed.), 1996, p 2.

TABLE 2
GOVERNMENT SPENDING AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT[a)]

	1880	1910	1930	1950	1960	1970	1981	1992	1996	1999[b)]
Sweden	-	10,4	14	-	31,4	42,8	62,2	67,2	64,3	59,2
Germany	10	15	30	29,2	32	37	48,7	48,5	48,8	46,5
USA	6,5	7	12,0	22,4	28,4	34	31,7	34,4	32,7	31,8
Average of OECD countries	-	-	-	29	30	34	37,6	40,3	39,9	38,5

a) Includes current and capital expenditure;
b) Estimates;

Source: World Development Report, p 139, OECD Economic Outlook (62) December 1997, and Thomas Cusack, *The Changing Contours of Government*, Tables 1 and 29.

From table 2 it is clear that Sweden and Germany should be classified as "state societies", while the USA should be classified as a "state-less society". In 1996 government spending as a percentage of GDP was 64,4 per cent in Sweden and 48,8 per cent in Germany and only 32,7 per cent in the USA[8]. For social spending as a percentage of GDP, see table 6.

3.4 The degree of decommodification in the different worlds

Esping-Andersen undertook *empirical* investigations to draw up a ranking to determine the "degree" of *decommodification* of labour attained by the welfare state systems in 18 Western countries in 1980. The "degree" of decommodification in social-democratic countries was 36, in the so-called "conservative" countries 28, and in the "liberal" countries of the British-American world only 19[9]. Because there has been a strong revival of *neo-liberalism* in the British-American world since 1980, the degrees of decommodification in the "liberal' countries are undoubtedly lower today than what they were in 1980. Seeing that European countries have not curtailed their welfare expenditure significantly since 1980 and have persisted in paying out unemployment benefits (even though unemployment is 10 per cent of the labour force), we have

[8] Since 1960 government expenditure in the USA has been between 3 to 7 percentage points lower than the average for the OECD countries. If we also take into account that the American spending on defence (primarily to maintain its nuclear capability) since 1960 has been some 7 per cent of GDP, while the average spending on defence of 15 industrialised countries since 1960 has only been 3,1 per cent of GDP, then government expenditure in the USA (excluding expenditure on defence) has been from 7 to 11 percentage points lower than most OECD countries. To what must we ascribe this lower level of government expenditure in the USA? It must be ascribed in the first instance to the fact that the liberal-capitalist ideology is particularly strong in the USA and that its welfare system is till more weakly developed than that of other Western countries. In the second place it must be ascribed to the fact that the welfare system in the USA is financed 55 per cent by the public sector and 45 per cent by the private sector, while the public sector in Europe bears 80 per cent of the burden and the private sector only 20 per cent.
[9] Esping-Andersen, 1990, p 52.

reason to suspect that the "degree" of decommodification in these countries is even higher than it was in 1980.

Esping-Andersen points out that when the welfare state system was introduced, its immediate purpose was to bring about a *decommodification* of labour. According to him it is wrong to regard the welfare state system simply as a *passive* by-product of industrialism. Once it is first institutionalised, "it becomes a powerful societal mechanism which decisively shapes the future [of the relevant countries]". Consequently in Europe, the welfare system plays a strategic role in the *trade-offs* made in these countries after 1973. The welfare state does not play a corresponding role in the British-American world (see next section).

4. ZERO-SUM TRADE-OFFS IN SWEDEN, GERMANY AND THE USA AFTER 1973

4.1 Zero-Sum trade-offs after 1973

One of the most remarkable features of the golden era (1950-1973) was that all OECD countries succeeded in making *positive-sum trade-offs* during this period: the growth rate was high, price stability was maintained, there was also reasonable exchange rate stability, full employment was achieved, and incomes were distributed much more equally. In almost all the OECD countries, there existed a remarkable ideological consensus about the Keynesian Social Democracy, about the government's responsibility in supplying social rights and social security and about the government's role to complement and to correct the deficiencies of the market mechanism.

In sharp contrast to the golden era, the period after 1973 was a time of *stagflation* (to the mid-1980s), growing unemployment, wild fluctuations in exchange rates, a sharp rise in government spending, while the net tax burden (up to about 1988) increased sharply. The most important factor responsible for the "crisis" was the sharp rise in oil prices from the OPEC cartel. The *trade-off* between the different socio-economic and political objectives became a *zero-sum game*. The ideological consensus was replaced with an ideological polarisation (or war) between the New Right and the New Left that is still raging to this day.

While the growth of the Gross World Product (GWP) was 5,0 per cent in the 1960s, it was 3,6 per cent in the 1970s, 2,8 per cent in the 1980s, and 2,0 per cent per year from 1990 to 1995.

According to Lester Thurow the world lost 60 per cent of its growth momentum in two decades[10]. The implication of this is that all governments had continuously had to make difficult choices between *policy priorities*.

After 1973 it seemed that the *bargaining power* of the working class was much greater than it was in, say, 1950. The number of labourers who had unemployment insurance rose sharply. In several European countries contracts on joint decision-making ("mitbestimmung" or "codetermination") were concluded between capital and labour[11].

The transition of the so-called *industrial* to the *post-industrial society* in highly industrialised countries that took place from 1960 onwards, also complicated the trade-off problem. With the rise of post-industrial society and the changing nature of job opportunities, the fear has arisen "that high-technology economics can satisfy our *wants*, but not our *need* to work". Two important questions have come to the fore in the transition to post-industrial society. *Firstly*, whether the *additional* job opportunities that are going to be created in the *services sector* (or tertiary sector) of the post-industrial economy are going to be sufficient to *compensate* for the large number of jobs that is going to be lost in the (old) *industrial sector* (secondary sector), and, *secondly*, whether the productivity and the remuneration of job opportunities in the *services sector* are going to be as high as the productivity and remuneration of the (old) industrial job opportunities[12].

Over the past 20 years perhaps the most important influence on individual countries' ability to implement social security policies independently, is the rise of the Global Economy. It narrows the field of domestic policy changes quite considerable due to the fact that global competition mercilessly punished profligate governments and uncompetitive economies. Openness inevitably restricts nations' capacity to autonomously design their own social policy and their own political

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[10] Thurow, L., *The Future of Capitalism*, Nicholas Brealey, London, 1996. p 1.

[11] In some European countries wage increases were "indexed" so thatwages would be adjusted automatically to price rises. All this meant that labour's ability to withstand unemployment and/or wage decreases had become considerably greater. The sharp rise in social spending in especially the 1970s and the beginning of the 1980s must be ascribed particularly to the increased unemployment benefits that had to be paid by governments to the unemployed in this period of stagflation.

[12] "The idea of *post-industrial society* emerged in the 1960s, provoked by contemporary revolutions in technology, management, consumption and employment. It portrays a *new world* where technicians, professionals and managers predominate; where old-fashioned manual labour disappears; where consumers' appetites are driven towards services ... The burning question [since the 1960s] concerns the *employment consequences* of post-industrial change ... Under post-industrialism lies a real process of *fundamental employment change:* new occupations are emerging; [manual] jobs that once were scarce are becoming abundant; physical and manual labour is a dying breed, and *mind-labour ...* is becoming the norm", Esping-Andersen, 1990, pp. 191-192.

economy. We have reason to fear that openness will drive out countries towards a "lowest" common welfare denominator.

Another factor that contributed towards the welfare state crisis in the period from 1973, is the view – rather popular in the British-American world – that the welfare state *per se* is to be blamed for the trade-off problems. The argument is that the rise of the welfare state brought about "market-distortion" that stifles the market and erodes incentives to work. On the strength of this argument, social spending – and special spendings on social protection and on poverty relief – was retrenched quite severely in British-American countries[13].

Since 1973 the governments of OECD countries have been struggling with the problem of *job creation* on the one hand, and maintaining satisfactory levels of *social rights* on the other hand. Despite fundamental differences in *institutional* accommodation (i.e. the type of welfare states and ideological orientation in different countries) none of the prevailing institutional models – of which Sweden, Germany and the USA are representative – has been capable of furnishing full employment and adequate levels of social security. While the challenge facing Sweden and Germany is to create *more* jobs, the challenge facing the USA is to create *better* jobs. But the other side of the same coin is that the USA are faced with the problem of increasing inequality while the European countries are faced with the task to modernise the welfare state system.

4.2 Trade-offs in Sweden

Since the 1930s strong, comprehensive and centralised trade unions have developed in Sweden which were prepared to hold *round-table talks* - in close collaboration with the social-democratic government - on wages, full employment and on social rights. This highly organised *negotiation system* in Sweden succeeded right until the end of the 1970s in producing *positive-sum trade-offs* through bargaining and in maintaining a surprisingly high level of employment. Sweden maintained a growth rate of 3,8 per cent from 1950 to 1973. Since then it has declined to 1,5 per cent.

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[13] Esping-Andersen summarised the present problem in welfare capitalism as follows: "On the one hand, many of the difficulties the welfare states today face are caused by *market* failure: that is, badly functioning labour markets produce an overload on existing social programmes ... on the other hand, there are possibly also *welfare state* failures: that is, the edifice of social protection in many countries is 'frozen' in a past socio-economic order that no longer obtains, rendering it incapable of responding adequately to new risks and needs". See Esping-Andersen, 1996, pp 2-9.

Up to 1986 Sweden had succeeded in keeping unemployment below 3 per cent. A factor that made an important contribution to the relatively high level of employment was the large number of job opportunities (especially for women) created in the public sector (as part of the growing post-industrial service sector). In this way the Swedes compensated for the decline in industrial job opportunities with an extension of job opportunities in the large welfare sector. Since 1981 government expenditure as a percentage of the GDP has been higher than 62 per cent! (See table 2).

As indicated in table 5, the degree of means testing, private pensions and private health spending is very low in Sweden compared with both Germany and the USA.

Another characteristic of the Swedish model is the active labour market programmes to train people in the kinds of skills that post-industrial society demands[14]. The stress on human capital investment, in the form of "productive social policy" has been part of the Swedish strategy for decades (table 3).

During the latter part of the 1980s, Sweden encountered a series of problems which made it impossible to maintain high levels of growth and employment together with high levels of social spending. Following liberalisation (as demanded by the Global Economy) in the early 1980s, the Swedish economy suffered heavy capital leakage's abroad. Consequently, the level of domestic investment declined and with it the level of the growth rate and job creation[15]. In these circumstances the strong "consensus-building institutions" – that played such a pivotal role in creating social harmony – started to break down.

TABLE 3
SOCIAL INVESTMENT POLICIES

	Percentage of labour force involved in public training and employment measures[a)]	Percentage of 18-year olds attending full-time education and training, 1990-1991
Sweden	6,3	56
Germany	4,9	81

[14] Henry Milner describes the Swedish economy as a system approximating the *solidaristic* market economy: "The solidaristic market economy associated with a socio-democratic social system may be conceptualised as a system of economic relations that reduced *uncertainty* by channelling market competition to those spheres of actuary where they are seen to contribute to aggregate *productivity,* while fostering relations of *solidarity* in other spheres complementary to *productivity* ... Solidaristic market relations make economic sense since they bring down *information* and *transaction* costs to a considerable degree". Milner, H., *Sweden, Social Democracy in Practice,* Oxford University Press, 19 , p 37.

[15] Stephens, JD, "The Scandinavian Welfare State: Achievements , Crisis and Prospects" in Esping-Andersen, (ed.), *Welfare States in Transition*, 1996, pp 32-62.

USA	2,6	55

a) These figures exclude general education and private training programmes

Source: OECD, Employment Outlook, 1994, Table 1.18 and Table 1.B.3

In the early 1990s Sweden experienced a negative economic growth while unemployment increased to almost 10 per cent[16]. In these circumstances Swedish governments – both Social and Democratic and Conservative – had no choice but to cut back on social spending. During the period of high rates of productivity growth, Sweden was in a position to maintain both the high level of social spending and the creation of additional jobs in the public sector. But with the decline in investment and a decline in labour productivity, its smaller fiscal capacity made it impossible to continue with both the high levels of social spending and job creation in the public sector. It remained, however, on high levels compared to Germany and the USA. See table 4.

TABLE 4

PUBLIC SOCIAL SECURITY AND HEALTH EXPENDITURE AS OF PERCENTAGE OF GROSS DOMESTIC PRODUCT IN SELECTED COUNTRIES

	1980	**1990**
Sweden	32,4	33,1
Germany	25,4	23,5
USA	14,1	14,6
Japan	8,9	12,2
Hungary	14,9	16,2
Brazil	5,2	5,0

Source: Esping-Andersen, 1996, p 11.

The relentless discipline of the Global Economy and the breakdown of Sweden's celebrated consensus-building institution, are mainly responsible for the fact that Sweden can no longer maximise *both* the welfare and efficiency. Some authors allege that the Swedish crisis is mainly induced by the welfare state's negative effects on work, savings and investment – i.e. the so-called entitlement problem other authors rejected this analysis. Esping-Andersen is of the opinion that the real issue has more to do with rebuilding consensus-building institutions rather than a further dismantling of the welfare state due to its disincentive effect on labour[17].

[16] *Ibid.*, p 45.
[17] *Op.cit.* 1996, p 15.

But apart from improving negotiating institutions, the Swedish government should not spend less, but rather more on retraining and human capital development in an attempt to restore its levels of productivity in the Global Economy.

TABLE 5

DEGREE OF MEANS TESTING, PRIVATE PENSIONS AND PRIVATE HEALTH SPENDING 1980

	Means tested poor relief (as % of total public social expenditure)	**Private Pensions (as % of total pensions)**	**Private health spending (as % of total health spending)**
Sweden	1,1	6	7
Germany	4,9	11	20
USA	18,2	21	57
18 OECD countries		13	22

Source: Esping-Andersen, 1990, p 70.

4.3 Trade-offs in Germany

After the Second World War Germany (or rather West Germany) developed its renowned "social market economy" (social capitalism). This left a great deal of space for the free market, but the government accepted responsibility for a relatively comprehensive (social) welfare system. For a long time Germany managed to sustain a high economic growth rate, high levels of social spending, full employment and price stability. From 1950 to 1973 the average growth rate was 6 per cent per year. Three factors made a favourable contribution towards a positive-sum trade-off: the autonomy of the German Central Bank (Bundesbank) which adopted a restrictive monetary policy, and the government, which ensured that state debt did not increase more rapidly than the GDP rose; the trade unions were relatively weak and consequently the pressure for redistribution was also relatively weak; the great influx of migrant workers from East European countries kept wages relatively low[18].

TABLE 6

SOCIAL EXPENDITURE AS PERCENTAGE OF GDP

Sweden	not available
Denmark (1991)	29,8

[18] "As long as labour supply outpaced industrial job expansion, the German 'economic miracle' could proceed without inflationary and without political claims for major social reform" (Esping-Andersen, 1990, p. 169)

Germany (West – 1991)	26,6
USA (1986)	18,0
18 OECD countries (1986)	25

Source: Esping-Andersen, 1996, pp 71 and 122

In the period after 1973 Germany persisted with a strict fiscal and monetary policy. Consequently unemployment increased to 8 per cent in 1983 and to more than 12 per cent in 1997[19]. The growth rate in Germany for the period 1973 to 1998 was a mere 2,5 per cent. As opposed to Sweden, Germany did not use the public sector to create additional job opportunities. Social spending was cut back, but not as drastically as in the USA (see table 6). In order to soften the unemployment problem, labourers were encouraged to take early retirement from the age of 55. Steps have also been taken to reduce the number of migrant labourers and, where possible, to repatriate them[20].

It is also not surprising that the *employed* population rate has declined in Germany (and other EEC countries) while the employment rate has risen in both the USA and Sweden[21]. While Sweden has managed the surplus of "deindustrialised" workers with retraining and job creation in the public sector, and while the Americans managed the surplus with very low wages, Germany has opted to subsidise their exit, especially through early retirement. In contrast to both Sweden and the USA, Germany is not experiencing a noteworthy growth in the post-industrial *service sector*[22].

To make matters even more complicated, a policy of low wages has been prohibited in Germany and job opportunities at low wages (in "junk-job" employment as in the USA) cannot be created. European social legislation makes it also very expensive, and almost impossible, to fire workers.

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[19] Thurow, *op.cit.*, p 37.

[20] According to Lester Thurow, the unemployment figure in Germany (and in other EU countries) is at least 20 per cent if one takes into account the labourers removed from the labour market through early retirement and repatriation. This means that one fifth of Germany's *potential* labour force does not form part of the *active* labour force.

[21] In 1960 the overall employment ratios were basically identical in Scandinavia, North America and Continental Europe at an average of 65 per cent of the working-age population. Since then, the *employed* population rate has risen to more than 75 per cent in the USA and almost 80 per cent in Sweden, while the EEC average has fallen to below 60 per cent. Esping-Andersen, 1996, p 18.

[22] Almost 42 per cent of Germany's labour force was in the middle 1980s still employed in the *industrial* sector in comparison with 28,8 in Sweden and 25,1 in the USA. Esping-Andersen claims that "the German employment trajectory is ... the oddest. Services and post-industrial occupations are not booming as they are elsewhere. Instead, there is a decline in employment as such, *and Germany remains a largely traditional industrial society with a relatively underdeveloped private- and public-service sector*" *Op.cit.*, 1990, p 214.

The German welfare state since the time of Bismarck has been designed in such a way that women do not have to form part of the labour force. Consequently the labour supply is relatively low and wages of men (especially in the industrial sector) particularly high[23]. The assumption in Germany is that men must be paid particularly high wages in order to enable them to support a family (in which the wife does not work) and to be able to pay high taxes for the sake of the well developed welfare state. Fortunately most German labourers are usually very skilled, efficient and hard-working and justify the usually high wages they are paid. It, nonetheless, seems as if the "mix" of high productivity, of low employment, high wages costs and high social spendings becomes a too heavy burden to compete effectively in the Global Economy.

The problem of unemployment and productivity in Germany has been seriously aggravated by the unification of East and West Germany. It also appears as if Germany's ability to adapt to the post-industrial economy is relatively weak while its industrialism is accompanied with "jobless growth"[24].

While of the 35 per cent of the labour force in Sweden and the USA was employed in the post industrial sector in 1985, only 21 per cent was employed in this sector in Germany[25].

The high level of unemployment in Germany and other EU countries indicates that the EU is facing a very difficult *trade-off* between job opportunities and the maintenance of *social rights. The fact that the EU countries have created no* additional job opportunities since 1973 (while the USA created 38 million additional job opportunities) is an indication of how seriously the EU's ability to *create jobs* has weakened in the post-industrial period. In spite of this lack of job creation, the GDP of EU countries was in 1994 some 80 per cent higher than it was in 1973[26]. This must be ascribed particularly to the high productivity of those workers who are employed. The high level of productivity maintained by labour is also linked to the sound education system in Europe, good in-service training and sustained technological advances.

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[23] Germany tops the charts of hourly wages. Its wages are more than $30 if fringe benefits are included. Including social costs, manufacturing labour costs in Germany are more than two thirds higher than those of the USA. Thurow, *op.cit.*, p 36.
[24] "Western Europe, with its much more comprehensive industrial relations system, welfare states, and also powerful trade unions [compared with the USA] has maintained equality and avoided growing poverty, but at the price of heavy (especially youth and long-term) unemployment and swelling armies of welfare dependants, the combination of which overburdens social security finances", Esping Andersen, 1996, p 4.
[25] Esping Andersen, *op.cit.*, 1990, p 204.
[26] Thurow, *op.cit.*, p 37.

In contrast to the USA, the EU countries are not prepared to adjust *wages*, or *social rights* or the *welfare state* in a downward direction in exchange for greater job creation and a higher growth rate[27]. Public social security and health expenditure in West-Germany as a percentage of GDP has decreased only from 25,4% in 1980 to 23,5% in 1990 compared to less than 15 per cent in the USA (see table 4)[28].

A special characteristic of the German welfare state is its combination of highly (if not overly) developed social insurance (inordinately orientated towards the pension of the breadwinner) with underdeveloped social services that are not family connected. The necessity of a long uninterrupted career results in a very flexible labour market for breadwinners. Any reform of the German welfare system should – according to Esping-Andersen – concentrate on a decrease of its built-in market rigidities and its orientation towards familistic transfers. But to reform a system that has been established in its familistic pattern for over a century, will not be easy[29].

As in Sweden, so Germany (and the other EU countries) are grappling with the problem of *entitlement*. The high level of social security spendings have to some extent spoilt the broader labour force in EU countries so that they claim ever more *social rights* (i.e. they have developed a kind of mentality that expects free handouts), while they are no longer prepared to accept their *social responsibilities* as hard-working and productive labourers as before[30].

Seeing that the EU countries are not prepared to accept the *crude* form of American capitalism, on the one hand, and seeing that they will not be able to maintain the present form of welfare state capitalism in the midst of growing unemployment, on the other hand, the EU countries are at present seeking a middle way or a "third way": "... between the flexible but relatively *ruthless*

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[27] Social security expenditure declined only marginally in Germany from 28.7 per cent of GDP in 1980 to 26.6 per cent in 1990. Esping-Andersen, *op.cit.*, 1996, p 71.

[28] "Europeans remain convinced that the welfare state is the *right path* for them. Europeans are not about to trade in their hard-won model of social justice for the hazards and inequalities of the US-style free market. Andreas Schockenhoff, a member of the German Bundestag says, 'Nobody in Germany would seriously propose abolishing the welfare state. This is a model not of our economy, but of our very *society*. We don't want to abolish it; we want to *bring it up to date*' ... The problem is, while Americans are used to performing with the flimsiest of social safety nets, Europeans have grown accustomed to - and some argue, unhealthily dependent on - the providential hand of government" (*Time*, 8 December 1997).

[29] Esping-Andersen summarises it as follows: "The problem ... is that the welfare of individuals and families depends on precisely those elements that cause rigidities in the first place: job security, high wages and expensive social contributions". *Op.cit.*, 1996, p 20.

[30] "Low growth and high unemployment are twin strands of a vicious economic circle. In Europe the high level of benefits paid the jobless not only strains government coffers, but *discourages* the unemployment from seeking work. In addition, the working age population is declining in relation to the number of people entering retirement. The

capitalism of the United States and the more *caring* but *costly* European model of social welfare and workers' rights[31]. In terms of these programmes, young people between 18 and 25 are given training for 18 months in some countries. Those who refuse to undergo the training, forfeit their unemployment benefits. Good results have been attained in this way. In terms of other programmes, the government pays half of the salary of the unemployment for several months if the private sector employs them. Other programmes are calculated to stimulate entrepreneurship.

While Germany and other EU countries realise that the glorious days of high growth, extravagant welfare benefits and lifelong jobs are probably gone for good, they do not necessarily regard the American model ("with its economic brutalities and social fractures") as their fate. Because of the EU countries' more human view of labour, they regard the low wages and poor conditions under which Americans must do their "junk jobs" as undignified.

4.4 Trade-offs in the USA

In the first thirty years after the Second World War the USA found it relatively easy to make a *positive-sum* trade-off - especially because social expenditure in the USA rose more slowly than it did in the European countries. In 1965 President Johnson began his Great Society policy and social spending began to rise moderately. In the stagflation after 1973, social expenditure (especially unemployment spending) rose much more rapidly than taxes and social security contributions. Given the lower economic growth rate and the lower tax capacity, the tax burden increased very quickly and led to the "tax resistance" of the end of the decade[32].

Since Reagan the USA managed economic decline and domestic unemployment with greater labour market and wage flexibility. This has involved the reduction of minimum wages and of

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result: governments are financing more and more welfare services from ever dwindling resources" (*Time*, 8 December 1997).

[31] Many European countries are experimenting with innovative ways to trim the welfare budget and share the essentials more equally among governments, businesses and individuals - while getting more people into work. Giving individuals not only the *right* but also the *responsibility* to work would be an important first step on the road to the Third Way. Some European governments are doing just that by exploring *active labour market policies*, programmes in which the state makes unemployment benefits *conditional* on the recipient's willingness to accept training and work" (*Time*, 8 December 1997).

[32] In order to bring the inflationary pressure under control, President Jimmy Carter introduced strong fiscal and monetary measures and caused a "political business cycle downswing" which led to his election defeat in 1980. In the depression of 1982 and 1983 unemployment rose to above 10 per cent, primarily because of President Carter's restrictive policy. Reagan won the election of 1980 on the back of the tax resistance. On the one hand, he reduced taxes and, on the other, sharply increased expenditure on defence (for the sake of military preparedness against the "evil empire"). The budget deficit of the federal government rose from 1,4 per cent of GDP in 1980 to 5 per cent in 1983. In the 12 years of Republican government from 1980 to 1992 American state debt more than quadrupled.

social security benefits. In 1989 the minimum wage dropped to only 38 per cent of average earnings and the real value of social assistance benefits (aid to families with dependent children) to 24 per cent of average earnings. The percentage of the unemployed receiving insurance benefits declined from about 70 per cent in the mid-1970s to 33 per cent in 1989. Consequently the already weak social safety net was allowed to become even weaker[33]. (Compare the low level of welfare related spendings in the USA with those of Sweden and Germany in Tables 1 and 2-6).

The American model is built on the basic assumption that the market should supply the public safety net. This implies negotiated occupational plans in the private sector[34]. An increasing share of the labour force is employed in firms and sectors with traditionally low coverage. At the same time private coverage in health and pensions has declined steadily since 1980[35]. The shift of job opportunities from manufacturing towards services jobs, brought about a lowering in the social coverage of many workers.

Ninety per cent of the new job opportunities created in the USA since 1970 are in the post-industrial *service sector*. While 50 per cent of the labour force were employed in the industrial sector in the USA in 1950, this has declined to the current 20 per cent. Since 1960 job opportunities in the *service sector* (the private as well as public service sector) in the USA grew by on average 4,7 per cent per year, as opposed to the 2,4 per cent per year in Sweden and 0,2 per cent per year in Germany. In contrast to Sweden, growth in the USA took place mainly in the *private* service sector.

The higher growth in job opportunities in the USA has its darker side. The USA "bought" job creation with lower wages, lower social expenditure and growing inequalities in the distribution of income. Much of the job growth appears in service jobs with lower wages. The low wages are especially acute among unskilled, non-unionised workers and among those entering the labour market. According to Esping-Andersen, "the burning issue is whether these jobs (with low wages) become dead-end traps; that is, whether the low wage strategy fosters a new kind of

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While the USA was the greatest credit country in 1980 that the world had ever known, by 1992 it had become the greatest debit country that the world had ever known!

[33] Esping-Andersen, 1996, p 16. Despite the fact that the USA spends almost 13 per cent of GDP on health care the number of persons without adequate protection is very high – an estimated 40 million.

[34] The typical company in the USA pays 11 per cent of wages to legislated social contributions, and another 12 per cent towards fringe welfare benefits. This compares with the EC average of 24 per cent to the former and5 per cent to the latter. Esping-Andersen, 1996, p 28.

chronically impoverished post-industrial proletariat[36]. We have indeed reason to allege that the low social expenditure and the flexible labour market has already caused a reappearance of the *commodification* of labour in the USA. Many of the job opportunities created in the USA's rapidly growing "fun services" are "lousy jobs" or "junk jobs". A large number of African-Americans, women and children do in fact find job opportunities, but the pay is low and the working conditions very bad. A full-time, all-year employment often results in below-poverty income.

There can be little doubt that America's positive employment performance was attained through the dogmatic return to unbridled freemarkets in which winners are rewarded and losers are punished severely. An important result of the retrenchment of social security and the flexible labour market, is the sharp increase in the unequal distribution of income. From 1973 to 1995 the per capita GDP in the USA rose by 36 per cent (or an average of 2,4 per cent per year) and 38 million additional job opportunities were created. But during this same period the *real* hourly wages of the bottom 60 per cent of the labour force declined by 14 per cent! ("Never before have a majority of American workers suffered real wage reductions while the real per capita GDP was advancing")[37]. Lester Thurow predicts that the wages of the bottom 60 to 70 per cent of the labour force will decline further and that their real wages in 2000 will be at the same level as they were in 1950, in spite of the fact that the per capita GDP in 2000 will be more than double what it was in 1950.

The puzzle we must try to solve is why the decline in real wages of the bottom 60 to 70 per cent of the labour force must be ascribed to an economy where the real economic growth rate has been 2,4 per cent per year since 1973. President Kennedy was fond of quoting the phrase that "a rising tide lifts all boats", but since the beginning of the 1970s this has no longer been the case. This could be ascribed to several factors. A first possible reason is that the collaboration between the Reagan/Bush/Clinton administration, on the one hand, and the well organised managerial elite of the large corporations, on the other, has succeeded in once again neutralising the greater bargaining power that the working class has gained during the golden era. A second possible reason could be that the USA (i.e. the administration and the corporate sector) used the rising global economy and increased international competition skilfully to undermine the

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[35] *Ibid*, 1996, p 16.
[36] *Ibid*, 1996, p 17.
[37] "While the real per capita GDP has risen in 18 out the past 20 years, real weekly wages have fallen relentlessly in 15 of the same 20 years", Thurow, *op.cit.* p. 24.

bargaining power of the working class. In this respect the cheaper products imported from Japan and other Asian countries played an important role in enabling employers in the USA to force down wages. A third possible reason could be that the productivity of the bottom 60 to 70 per cent of the American labour force did not keep pace with that of the USA's trading partners. If it is true that the relative labour productivity in America is on the decline, this must probably be ascribed to deficiencies in the American education system[38].

While the real wages of the bottom 60 per cent of individual workers declined by 14 per cent from 1973 to 1995, the *household* incomes did not decline so sharply because of the greater participation of women and the higher wages of women. According to Thurow, women's participation in the economy of the USA is thus no longer voluntary, but essential to protect the living standards of the majority of households - in a growing economy - against being scaled down. The mad rush for success in the materialistic and consumer-driven civilisation, however, leads to the disintegration of the family and of society at large. Crime rates in the USA are much higher than in Europe. It is alleged, with a considerable degree of justification, that the cost involved in the prison population in the USA is the American equivalent to Europe's high unemployment[39]. Lester Thurow asked the following question about the USA economy: "How far can inequalities [in the USA] rise before the system cracks?"

5. POSSIBLE LESSONS FOR SOUTH AFRICA

5.1 Emulating or not?

Esping-Andersen asks the question whether the developing countries in the world are in the process of emulating the welfare state models of the developed world or whether they are following qualitatively new (or own) trajectories. After an extensive survey has been done on welfare states in developing countries, Esping-Andersen comes to the following conclusion: "If

[38] According to Thurow, the benefits of the higher growth rate went mainly to the richest 20 per cent of the American population. During the 1980s the richest 1 per cent pocketed no less than 64 per cent of the greater earnings. The net result of this is that not only *incomes* but also *property* was distributed much more *unequally* in 1995 than in 1973. The net wealth of the richest ½ per cent of the American population rose from 26 per cent in 1983 to 31 per cent in 1989. The net wealth of the richest 1 per cent in 1920 was about 44 per cent of total wealth. In 1975 it dropped to 22 per cent and in 1990 once again rose to 44 per cent!
[39] Esping-Andersen, 1996, p 28.

by 'new' we mean [welfare] models that deviate markedly from existing welfare states [in the developed world] the answer is essentially no"[40]. What has happened in many cases is that countries are using a unique hybrid of existing welfare state models. But under the influence (or pressure) of the World Bank and the IMF, many developing countries opt for broadly a liberal strategy based on privatisation of social insurance, a reduced public safety net, a shift towards targeted means tested assistance and flexible labour markets. The wisdom of the World Bank and the IMF to expect developing countries – irrespective of local condition – to implement policies in accordance with the "Washington consensus" is lately being questioned quite severely.

Before we can draw any lessons from the three welfare models discussed above, we should first give a short overview of the unique social, economic and organisational problems facing the new South Africa during its transformation process.

5.2 The main problems facing the political economy in the new South Africa

South Africa is at present still in the midst of a (political, economic and ideological) transformation. This process started in the middle of the 1970s and the political dimension thereof underwent an important political transformation in 1994. It would, however, be a mistake to allege that the transformation is almost complete. Very important transformations in *social* and *economic* relations in an *ideological* orientation are still taking place. It may take at least another 10 years before a stable social and economic framework and a common value system will be in place.

It is important to realise that the economic debate during the period of transformation cannot be a narrow debate, restricted to what is popularly regarded as economic phenomena. The South African economic problem is presently a systemic problem, closely intertwined with other systemic problems such as the task to build a new political order, to build a new society and to internalise a new unifying ideology.

For the purpose of this paper, we can identify the problems facing the South African political economy in terms of the following five problem areas:

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[40] *Op.cit.*, 1996, p 20.

Firstly, a lack of the necessary *socio-economic stability* as manifested by the high level of violence, crime and other forms of lawlessness.

Secondly, a lack of the necessary *equity* as manifested in the sharp inequalities in the distribution of income, of property and of opportunities and in the abject poverty in which the poorer 45 per cent of the population has to live.

Thirdly, the relatively low level of *economic growth* and the poor job-creating ability of the economy.

Fourthly, the inability of both private and public sectors to create socio-economic and ideological conditions conducive to a fuller integration of the South African economy into the *Global Economy*.

Fifthly, the inability of the new government to *govern effectively* and the obvious lack of "state capacity" in the public sector.

It is necessary to emphasise that these five problem areas are closely interdependent, in the sense that an adequate solution for each of them very much depends on progress attained in finding solutions to the other four problem areas.

(a) *The need for socio-economic stability*

The most visible and the mostly talked-about problem in South Africa - both locally and internationally - is the high level of violence and criminality. There is growing consensus that the high levels of crime and violence must be attributed to a multitude of factors that have undermined society formation in South Africa over a relatively long period of time. We should not forget that the main characteristic of South Africa's history, over a period of more than 300 years, has been the drawn-out group conflict and group plundering between a multitude of ethnic, colour and language groups. Since 1910 the process of group plundering has continued, but within constitutional frameworks. Although it has become less bloody, it has remained rather violent. During the apartheid period, society was artificially divided and fragmented into hostile groups. We can put forward a strong argument that the deprivation, repression and injustices inherent to the system of apartheid, not only impoverished the African population, but also brutalised large numbers of Africans. It is not reasonable to expect that those sections of the population that have been impoverished and brutalised by the inhuman structures of apartheid should suddenly act in a civilised and pro-society manner now that the structures of apartheid have been removed.

If we had to identify the most serious problems facing South Africa today, then it is the absence of a proper *social structure*. The South African population does not presently constitute a society. We do not have the shared values, the cross cutting interest groups and the common history necessary to cement the population into some kind of community. Consequently, South Africa's main task at present should be Society Building in the broadest sense of the word. This is necessary not only for its intrinsic value, but also because it is an indispensable precondition for a capitalistic orientated economic system.

To suggest that Society Building should presently be our main task, is easier said than done. The problem is that Society Building is something that cannot be accomplished in the short term. It is a multi-faceted process that can only unfold over a relatively long period of time. Although strict law enforcement will not necessarily eliminate the root causes of lawlessness and anti-social behaviour, it is nonetheless an indispensable precondition for Society Building. Whether the ANC government - with its strong emphasis on democracy and human rights - has the will and the state capacity to restore social order is a moot point.

(b) *The need for a redistribution and poverty relief programme*

The very unequal distribution of income, property and opportunities, and the widespread poverty must also be regarded as one of South Africa's most serious problems. The GINI coefficient is probably the best known measure of inequality and the most appropriate measure for international comparisons. The South African GINI coefficient was estimated at 0,63 for 1991. Of all the countries for which satisfactory data are available, South Africa has the highest GINI coefficient and therefore the highest degree of inequality.

Although the structures and policies of racial capitalism 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 and ideological orientation created and maintained during the period of white supremacy.

Central Statistics published a Lorenz-curve showing the *cumulative* income distribution of households in South Africa[41]. The following conclusions can be drawn from the Lorenz-curve: The poorest 10 per cent of households (13 per cent of the population) received as little as 1 per cent of all household income in 1995; the poorest 40 per cent of households (i.e. 53 per cent of the population) received only 8 per cent of income; the poorest 60 per cent of households (or ± 75 per cent of the population) received only 16 per cent of income. While the richest 20 per cent of households (14 per cent of the population) received 65 per cent of income, the poorest 10 per cent (13 per cent of the population) received only 1 per cent of income! The top 10 per cent of households – and only 5,8 per cent of the population – received more than 40 per cent income!

But what is really disturbing is the fact that income is very unevenly distributed among race. Almost 50 per cent of African households fall in the lower 40 per cent of household income, while only 5 per cent of whites fall in the lower 40 per cent income[42]. As far as the distribution of *individual* income is concerned, the top 20 per cent receive 72 per cent of income, while the bottom 40 per cent receive only 7 per cent.

Interesting shifts have taken place in the distribution of income over the past 30 years. While the income of the bottom 40 per cent of Africans declined by almost 50 per cent since 1975, the income of the top 20 per cent of Africans increased by more than 40 per cent. As far as the whites are concerned, the bottom 60 per cent has also become much poorer while the top 20 per cent has more or less maintained their position. The composition of the top 20 per cent has also changed rather dramatically. More than one-third (34 per cent) of those in the top 20 per cent are now Africans, while 52 per cent are whites. The rest (14 per cent) are Coloureds and Indians.

The fact that almost 10 per cent of Africans (2,8 million individuals) were in the top 20 per cent in 1995, is a novel phenomenon. An additional 1,1 million of the Coloured and Asian population group were also in the top 20 per cent. The almost 4 million blacks (compared to 4,3 million

[41] Earnings and Spendings in South Africa, Central Statistics, 1997, figure 7.
[42] *Ibid.*, fig. 1.

whites) in the top 20 per cent is a clear indication of the rise of a new black *haute bourgeoisé*. While the income of these 4 million blacks has increased quite dramatically over the last 20 years, the income of the lower 40 to 50 per cent of blacks (15 to 18 million individuals) has declined alarmingly. Consequently the income in the ranks of the black population has become much more unequal.

It is estimated that 45 per cent of the population (i.e. 18 million people) are living in abject poverty, i.e. below the Minimum Living Level (MLL) calculated by the Bureau of Market Research.

(c) *The need for increased economic growth and employment creation*

The two decades from 1973 until 1994 was a period of stagflation and growing unemployment in South Africa. During this period the annual growth rate was only 1,7 per cent and the real per capita income declined at an annual rate of 0,7 per cent. The part of the labour force that could not find employment in the formal sector of the economy has increased from less than 10 per cent in 1960 to more or less 40 per cent today. An important reason for the poor job-creating ability of the economy is the sharp increase in capital-intensity of the South African economy. The capital/ labour ratio increased by more than 300 per cent since 1960. The main reasons, therefore, are Dr Verwoerd's attempt to create a "white" economy in South Africa and the granting of trade-union rights to Africans in a political vacuum in 1979/1981.

The poor performance of the South African economy since 1974 can to a large extent be blamed on the Struggle and the Resistance against it. The protracted struggle for political control in South Africa took place, to a large degree, in the economic arena and has done considerable damage to the economy.

As one can expect from a developing country, foreign investment played quite an important role in South Africa's development. During the period 1946 to 1976, an annual economic growth rate of 4,6 per cent was maintained. During this period, 13,5 per cent of Gross Domestic Investment (GDI) was financed by foreign investment. During the 1960s and early 1970s, South Africa's overall investment record was very impressive, with the ratio of fixed investment to GDP rising from 18 per cent in 1962 to a peak of 30 per cent in 1972. Since 1976 the investment to GDP ratio has declined to a level below 16 per cent in 1993. An important factor in this decline was the outflow of foreign investment (due to the disinvestment strategy of the liberation movements). During the same period real net domestic savings also declined sharply. The gross domestic savings are at present 16½ per cent of GDP, while investment forms 19 per cent of GDP.

In June 1996 the Ministry of Finance published the department's new macroeconomic strategy - *Growth, Employment and Redistribution (GEAR)*. The purpose of the document was to formulate a comprehensive macroeconomic strategy. GEAR's point of departure is that sustained growth on a higher plane requires a transformation towards a *competitive, outward-orientated* economy. It develops a strategy to attain a growth rate of 6 per cent per annum and job creation of 400 000 per annum by the year 2000. To attain a growth rate of 6 per cent in the year 2000, the GEAR emphasises the need for government consumption expenditure to be cut back and for private and public wage increases to be kept in check. It was hoped that gross domestic savings will rise to 22 per cent of GDP and that gross domestic investment will increase to 26 per cent of GDP in the year 2000. This would have required a capital inflow equivalent of 4 per cent of GDP, i.e. more or less R30 billion in the year 2000. To attain the employment growth through GEAR it was envisaged that more or less one third of the new job growth would be created through higher growth, one third through public work programmes and one third through institutional reform and labour market wage moderation, i.e. wage flexibility.

The GEAR strategy has failed dismally: it is not enhancing growth, employment or redistribution. The growth rate since 1996 is less than 2 per cent. It is estimated that at least 500 000 job opportunities have been destroyed and the distribution of income is, if anything, more unequal than in 1996.

Several reasons can be given for GEAR's inability to meet its targets. GEAR was based upon the assumption that liberalisation will attract foreign direct investment. It adopted a conservative, orthodox and neo-liberal approach, based on fiscal discipline and labour market flexibility, trusting that it would create an investor-friendly climate that will send the right signals to the Global Market and thereby boost investor confidence. It failed because it was too narrowly *economic* in its approach. To create an investor-friendly climate it would have been necessary to bring about *a much larger degree of social stability*. GEAR took as its point of departure that the lack of economic growth and employment should be regarded as South Africa's gravest problems. But at this stage of the transformation process, the absence of a proper social structure and the very unequal distribution of income should be regarded as the most serious problems. It is perhaps necessary to acknowledge explicitly that it would not be possible to create an investor-friendly climate before a larger degree of social stability can be maintained.

Another reason why GEAR has failed is because the target of great wage flexibility was not attained. In this regard the resistance of the trade union movement was definitely not helpful. It seems as if the trade union movement is not prepared to accept the discipline of the foreign market. A third reason for its failure is the instability experienced lately in the financial markets of the Global Economy.

(d) *The need for a reintroduction of the South African economy into the Global Economy*

For many years South Africa's economic and political relations with the outside world have been a controversial and ambivalent matter. As a developing country and as exporter of primary products, South Africa is highly dependent on the inflow of capital and on the availability of export markets. During the third quarter of the century South Africa attained a high economic growth rate, supported by a large influx of foreign investment. During the Struggle the liberation organisations were successful in "convincing" the international community to conduct a policy of sanctions and disinvestment against the racist regime in South Africa. This policy of isolating South Africa economically, played an important role in the economic predicament in which South Africa found itself in the late 1980s. It was therefore instrumental in the political transformation in the early 1990s.

After two decades of increasing international isolation, the South African economy is faced with the challenge to become *reintroduced* into the Global Economy. It is generally acknowledged that it would not be possible to move the economy to a higher growth path without a large influx of foreign investment and without succeeding in exporting labour-embodied industrial products. The GEAR document states "that the central thrust of trade and industrial policy had to be the pursuit of employment creating international competitiveness" and that "world competitiveness nowadays depends as much on comparative advantage in the public policy arena as it relies on technology, human resources and physical capital". The present crisis in the financial markets of the Global Economy puts South Africa in a rather unenviable position. In this situation it is perhaps not enough to adapt the targets of GEAR. It is perhaps necessary to review the GEAR programme rather fundamentally.

(e) *The need for good and effective governance and adequate state capacity*

The state has a leading role to play in the reconstruction process and in facilitating the transformation towards a viable system of democratic capitalism. For this we need a good and effective government and adequate state capacity. It seems, however, as if the new government cannot govern effectively and that we do not have the necessary capacity in the bureaucratic state.

A great deal of the problems encountered by the new government can be blamed on the structure of the government, on the ANC's lack of experience and on its policy of affirmative action.

Problems created by the lack of experience and/or ability in the case of many ministers, are aggravated by inefficiencies in the bureaucracy. Some of these inefficiencies are the result of the obstructive behaviour of public service from the old order. A large part of the inefficiencies must, however, be attributed to the incompetence of public servants who have been appointed and promoted in accordance with the policy of affirmative action. Many of these appointees are simply not capable of shouldering the responsibilities with which they have been entrusted.

The post-apartheid government inherited a complex system of governance based on the principle of separate development. The moral of the bureaucracy was at a low point in 1994. The new government now has to use these state organs to realise its vision of reconstruction and development. After almost five years in office the government has to acknowledge that the capacity of the bureaucracy is rather poor. Almost all departments – both national and provincial – are becoming renowned for their lack of efficiency, their inability to deliver and their inclination towards fraud and corruption.

While South Africa needs a "hard state" during the present phase of the transformation process, the state has become conspicuously "soft". If we have to typify South Africa as a "state-less" or a "state society", then there is no doubt that South Africa is a conspiciously "state-less" society. The hostility of the private sector towards the public sector – that is typical of "state-less" societies in the British/American world – is very much the case in South Africa.

5.3 Trade-offs and social security in South Africa

The trade-off problem in South Africa is exceptionally difficult. We need policy measures that will promote nation-building, social rights, greater equity, poverty-relief, economic growth, employment creation, macroeconomic stability, exchange rate stability and the creation of an investor-friendly climate. There is no prospect, whatsoever, of a positive trade-off. At the moment almost everyone of the above mentioned policy aims is negative. Consequently, the trade-off is also destined to be a zero-sum trade-off. The real question is how should we *prioritise* the policy aims to achieve the best results over the long run. What should be done to "solve" the five problems identified above and what role should social security play in it? What lessons can we learn from the social security systems of Sweden, Germany and the USA?

(a) *Nation-building*

We identify nation-building as the greatest problem facing South Africa *en route* towards a viable system of democratic capitalism. What role should the welfare system play in nation-building?

According to Esping-Andersen, the welfare state – as it was constructed after the Second World War in Europe (but not necessarily in the USA) – "was much more than a mere upgrading of existing social policies". In *economic* terms it was a *deliberate* departure from the orthodoxies of the pure market, in *moral* terms it promised *a more universal, classless justice and solidarity of "the people"*; and in terms of the *political* project of *nation-building* it "*presented a ray of hope to those who were asked to sacrifice for the common good of the war effort*[43].

In the South African case, we can put forward a much stronger case that our welfare state ought to be constructed in such a way that it will present a ray of hope to those who were asked to sacrifice for the common good during the Struggle. Unfortunately, I do not think we can say that our welfare state is presently constructed and presented as an instrument of nation-building. It may perhaps be true of the spendings on education. In the 1998/1999 Budget R46,8 billion (or 7 per cent of GDP) will be spent on Education. The amounts spent on Health (R25,1 billion or 3,6 per cent of GDP) and on Social Security and Welfare (R19,8 billion or 3,0 per cent of GDP) are

[43] *Op.cit.*, 1996, p 2.

too small – given the widespread deprivation and poverty – to be instrumental in nation-building (see below).

(b) *Poverty*

It is estimated that 45 per cent of the population (i.e. 18 million people) are living in abject poverty. A very high percentage of the African (more than 60 per cent) and Coloureds (± 30 per cent) are living in poverty. These people cannot meet their Basic Human Needs on a regular basis. Consequently, these people's *social rights* are at risk. The new government put a high premium on *human rights*. If the government is correct in its emphasis on *human rights*, then it should certainly do more to enable people to meet their *social rights*.

The government is spending in 1998/1999 R102,2 billion (or 15,3 per cent of GDP) on Social Services. Of this amount R46,5 (or 7 per cent of GDP) is on Education and R55,3 (or 8,3 per cent of GDP) on the rest. Although the amounts spent on Health and Social Security are of the utmost importance to improve the living standards of the relevant people, it is far too small to bring about a meaningful upliftment of the poor or greater equity in the distribution of income. If the government can be convinced to spend more on poverty upliftment, it would perhaps be advisable not to spend more on the existing programmes for Health, Social Security and Housing. The government should take note of the fact that many of the poor whose social rights are at risk, are people that do not qualify for additional Health or Social Security. A new programme for poverty upliftment *per se* ought to be developed. Perhaps the government does not have the state capacity to implement such a process. If that is the case, the government should enter into a partnership with some of the non-government organisations (NGO).

The kind of poverty and inequality existing presently in South Africa can perhaps be condoned from a strict American point of view. The American point of view emphasises individual materialism, and competitiveness, while the European perspective has a different view of society and of the state's responsibility towards those who have been impoverished by economic and political forces beyond their control.

(c) *Inequality in the population as a whole*

If we look at the statistical information on inequality and poverty – without taking the historical context into account – we can put forward strong arguments for a more comprehensive redistributive measure than those in place at the moment. But if we look at the inequalities and poverty in South Africa in their proper *historical* context – i.e. taking full cognisance of the *structural exploitation* that was inherent to the political system of white supremacy and the economic system of racial capitalism for at least 100 years – then the removal of these extreme inequalities and the abject poverty is not only an issue of redistribution, but becomes a more pressing matter of *restitution*. The government ought to tax the beneficiaries of apartheid heavier, to have the fiscal capacity to pay restitution to the victims of structural exploitation.

(d) *Inequality in the ranks of the blacks*

As indicated above, almost 4 million of the black population are in the top 20 per cent income bracket. Looking at this in isolation, it should be recommended. The problem, however, is that the greater part of the 4 million blacks became rich over the past 15 years at a time when the income of the lower 60 per cent of blacks declined considerably. This kind of growing inequality in black circles is reminiscent of the inequality "produced" by the liberal capitalistic approach in the British-American world. We can ill-afford this growing inequality in black circles. One gets the impression that the policy of *black empowerment* is busy to get terribly derailed into a policy of *black enrichment* on behalf of a small black elite and that it is happening amidst increasing poverty in black circles. If this pattern is to continue for the next 10 to 20 years, it would not only boil down to a new form of injustice, but would also create a rather dangerous situation. Heribert Adam *et.al.* put it as follows:

> "The gap between white and black wealth is still vast, but narrowing. Yet the internal economic discrepancies among blacks are widening ... On top of the vast discrepancies [in black circles], a thorough Americanisation has penetrated all segments. American habits and ostentatious consumption have become the desired yardstick ... An unashamed *elitist self-confidence* pervades the new [black] bourgeoisie that claims to be underpaid, compared with exile experience ... It should be of no concern, were it not for the squandering of public money amidst a sea of poverty"[44].

[44] Adam, H., Slabbert, F. v.Z. and Moodley, K., *Comrades in Business*, Tafelberg, Cape Town, pp 174-175.

(e) *Wages and Productivity*

The level of wages vis-à-vis productivity has become a highly controversial matter in South Africa. The popular perception is that while black wages were relatively low vis-à-vis productivity in the period before 1970, it has become relatively high vis-à-vis productivity since 1980. After Africans were given full trade-union and strike rights in 1979/81 the black trade union movement became part of the Struggle and succeeded with extraordinary wage demands. Industrial citizenship without political citizenship was a fundamentally unstable arrangement. Due to the fact that COSATU is now part of the Alliance that is governing the country, the black trade unions are in command of both trade union and political power. One could have expected that in a situation where 40 per cent of the potential labour force cannot find employment in the formal sector of the economy, the bargaining power of the trade unions would be relatively weak. Unfortunately, this is not the case. One of the big paradoxes of the South African situation is the "powerlessness" of the black "outsiders" (i.e. those without job opportunities) and the "powerfulness" of the black "insiders". Up until now NEDLAC has not succeeded as an institution for round-table negotiations between labour, capital and the government. It is rather important that NEDLAC would succeed as "consensus-building institution" and as an instrument to attain a greater degree of wage moderation.

(f) *Economic growth and job creation*

As long as South Africa depends on the private sector for a better growth performance and greater job creation, the prospect for the immediate future does not look very promising due to at least four reasons:

In the first place, the level of local savings is not high enough to finance a higher level of capital accumulation. Secondly, given the lack of social stability the chances to invite the necessary foreign direct investments are also not good. Thirdly, we ought to realise that as long as the instability on foreign markets continues, we cannot expect an adequate inflow of foreign investments. Fourthly, the economic growth that might materialise will, in all probability, be jobless growth. The reason for this is the exceptional high capital/labour relationship in the South African economy.

With little prospects of economic growth and job creation in the private sector, a high responsibility rests on the shoulders of the public sector to do something about economic growth and job creation. The government should launch several public works projects – especially projects that are labour intensive – to create jobs and to stimulate economic growth. Presently there exists a clear need for a state programme of public investment that may improve opportunities, and – through these means – "crowd in" private investment. There is, unfortunately, a stumbling block. The problem of how to finance such a programme is perhaps less acute than the formation of the political, social and institutional capacity to carry it out.

We also mentioned the lack of state capacity in section 5.2(a) above. State capacity can be built, although it will not be an easy task. As we stated above, South Africa should be classified as a "state-less" society, partly due to the hostility of the (rather Americanised) private sector against an active role of the state in the economy. In an attempt to build the necessary state capacity, it will also be necessary to break down the hostility of the private sector against the state. In doing this, we can learn a lot about the positive relationship between the private and public sectors in countries like Sweden, Germany and France.

Chapter Thirty-One

Exchange

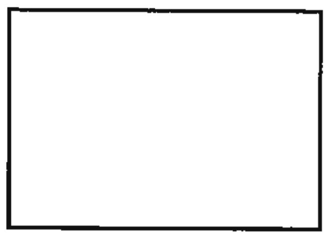
Exchange

- Two consumers, A and B.
- Their endowments of goods 1 and 2 are $\omega^A = (\omega_1^A, \omega_2^A)$ and $\omega^B = (\omega_1^B, \omega_2^B)$.
- E.g. $\omega^A = (6,4)$ and $\omega^B = (2,2)$.
- The total quantities available are $\omega_1^A + \omega_1^B = 6 + 2 = 8$ units of good 1 and $\omega_2^A + \omega_2^B = 4 + 2 = 6$ units of good 2.

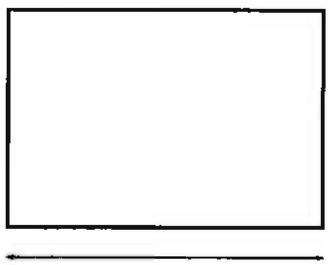
Exchange

- Edgeworth and Bowley devised a diagram, called an Edgeworth box, to show all possible allocations of the available quantities of goods 1 and 2 between the two consumers.

Starting an Edgeworth Box



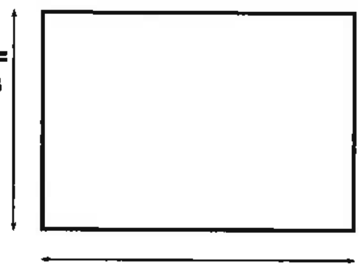
Starting an Edgeworth Box



Width = $\omega_1^A + \omega_1^B = 6 + 2 = 8$

Starting an Edgeworth Box

Height = $\omega_2^A + \omega_2^B$ $= 4 + 2$ $= 6$



Width = $\omega_1^A + \omega_1^B = 6 + 2 = 8$