

## **A PERSPECTIVE ON SOUTH AFRICA'S DEVELOPMENT PROBLEMS TEN YEARS AFTER 1994**

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### **1. DISTRIBUTIONAL SHIFTS OVER THE PAST 30 YEARS AND THE EMERGENCE OF A CLASS SOCIETY**

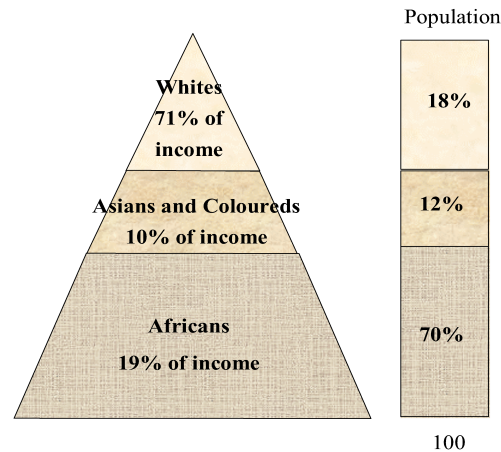
The performance of the South African economy - viewed from a per capita point of view - has improved in a meaningful way since 1994. The average annual economic growth rate was 2,7% and the real per capita income increased by 0,6% annually. This is a much better performance than what was attained during the previous 20 years. From 1974 until 1994 the annual growth rate was only 1,7%, while the real per capita-income declined by 0,7% annually. The period from 1974 to 1994 was a period of stagflation and of creeping poverty. These 20 years coincided with the struggle against apartheid.

In both these periods - that encompass the past 30 years - the burdens of creeping poverty and the benefits of increased per capita growth, were respectively not distributed *equally* or *proportionally* between the different racial class and income groups in South Africa. During the struggle period the household income of almost all population groups declined with the exception of the top 25% of blacks. Their income increased by almost 40% to a large degree as a result of concessions made to them by the apartheid regime in a desperate attempt to pacify them. Unfortunately, the income of the poorest 50% of blacks decline by almost 50% while the income of the poorest 40% of whites, also declined - albeit from a much higher level - by almost 40%.

The *distributional shifts* that took place during the struggle period were to a large extent perpetuated during the past 10 years. The income of the top one-third of the total population (both blacks and whites) increased by  $\pm 20\%$ , while the household income of the poorest 45% of blacks declined by a further  $\pm 10\%$  since 1994.

It is illuminating to compare the distribution of income in, say, 1973, with the distribution of income in 2003. In 1973 the South African society was very much a *racially* divided society. The whites were 18% of the total population and received 71% of total income. The Asians and coloureds were 12% of the population and received 10% of income. The Africans were 70% of the population and received only 19% of total income.

# THE RACIALLY DIVIDED SOCIETY OF 1970 AND ITS UNEQUAL DISTRIBUTION OF INCOME



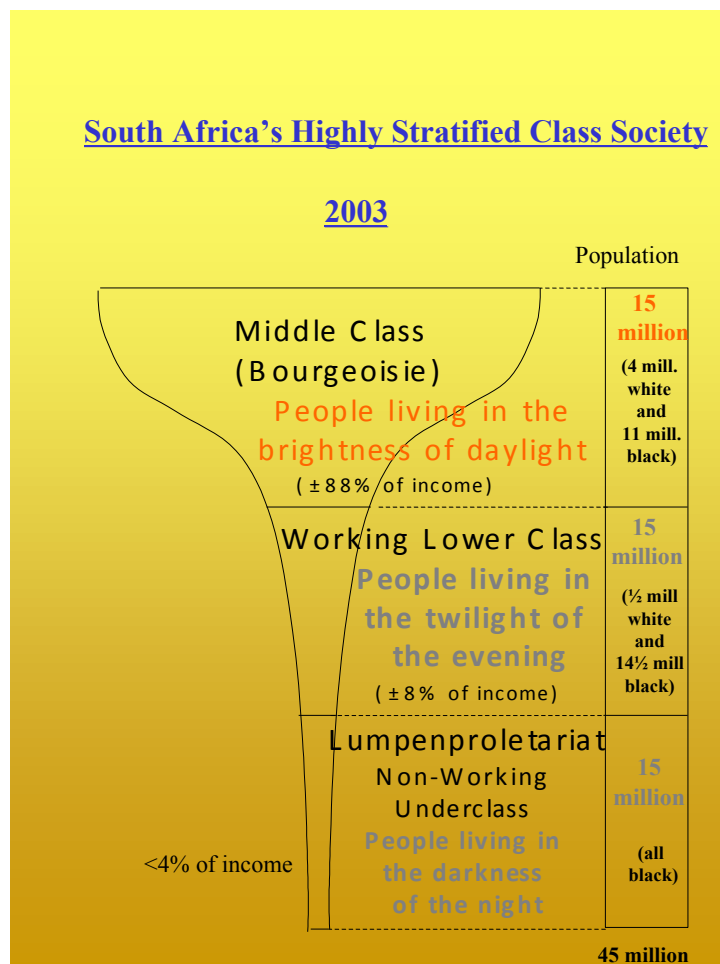
This very "skewed" racial stratification of income was the direct result of the systemic exploitation that took place during the long period of extended colonialism (1652-1994). This "skewed" racial stratification changed very little during the first 75 years of the 20<sup>th</sup> century. During these 75 years the whites were always less than 20% of the total population and received permanently more than 70% of total income. The Africans, on the other hand, were during these 75 years almost 70% of the total population, but received permanently less than 20% of total income. The Coloureds and the Asians were during these 75 years  $\pm 12\%$  of the population and received  $\pm 10\%$  of total income.

The rather dramatic *distributional shifts* that took place over the past 30 years - i.e. during both the struggle (1974-1994) and the democratic (since 1994) periods - have transformed the South African society from a society stratified along *racial* lines into a society stratified along *class* lines. The most important of these distributional shifts were:

- i) the decline of the whites' share in total income from 71% in 1970 to less than 50% today;
- ii) the increase in the income of the top 25% of blacks by almost 40% from 1975 to 1994 and by a further  $\pm 30\%$  since 1994;
- iii) and the decline in the income of the poorest 45% of blacks ( $\pm 18$  million people) by almost 50% from 1974 until 1994 and by a further  $\pm 10\%$  since 1994.

Several factors were responsible for the dramatic decline in the income of the poorest 45% of blacks. The factor that made the greatest contribution to the ongoing pauperisation of the poorest  $\pm 18$  million, is the sharp increase in unemployment since 1970. It increased from  $\pm 20\%$  in 1970 to  $\pm 42\%$  today. Unfortunately, the unemployment problem is mainly an African phenomenon. African unemployment has increased from 24% in 1970 to more than 40% in 1994 and to more than 50% today. In 1970 34% of all Africans (children and elderly people included) was permanently employed in the formal sector. Today only 13% is thus employed.

If we take both the changed income patterns and the changed employment patterns over the past 30 years into account, we can divide the present South African population of 45 million people into three socio-economic classes of roughly 15 million each.



- i) **Firstly**, a non-racial and rich *middle class* (bourgeoisie) of which 4 million are white and 11 million are black. This class socio-economic position has improved in a spectacular way over the past 10 years. This class is living in the brightness of daylight.
- ii) **Secondly**, a poor *lower class* (or workers class) of 15 million people that are mainly black. The heads of households in this class have access to job-opportunities although many of these job-opportunities are in the informal sector. The socio-economic position of a large part of this class has improved over the past 10 years, but the socio-economic position of the rest has deteriorated. This class is poor but not desperately poor. This class is living in twilight of the evening - in different shades of twilight.
- iii) **Thirdly**, the *bottom* 15 million are a black (and mainly African) *underclass* (or lumpenproletariat) that was already desperately poor in 1994, but whose socio-economic position has deteriorated further over the past 10 years. The heads of households in this class have almost no access to job-opportunities in either the formal or the informal sector. They are therefore a non-working *underclass*. This class is living in the darkness of the night.

## 2. SOUTH AFRICA AS A THREE CLASS NATION OR A THREE-NATION-NATION

Let us look in somewhat greater detail to the socio-economic position of each of the three classes and to the social, political and economic determinants that are responsible for the improvements and/or deteriorations of the socio-economic position of each class.

### i) The rich middle class or the bourgeoisie

This class receives  $\pm 88\%$  of total income and  $\pm 37\%$  of the income of Africa South of the Sahara. This class lives in a wonderful oasis amidst a large and impoverished African desert. This class should count its blessings.

The white component of the *middle class* (4 million people) are relatively rich. They have done quite well over the past 10 years, although some have become poorer. I am going to concentrate on the 11 million black middle class people. This group - and especially the  $\pm 2$  million that can be regarded as the black elite - experienced a dramatic improvement in their socio-economic conditions since 1974 and especially since 1994.

The rise of the black middle class should be regarded as a very positive phenomenon. But if we take account of the fact that the relative quick *embourgeoisement* of the black middle class took place during the same 30 years in which the socio-economic situation of the *underclass* deteriorated dramatically, then there is genuine concern that the black middle class' *embourgeoisement* may have taken place too quickly, too easily and that many of them have also become too rich. Although it is not easy to identify a direct causal link between the *enrichment* of the black middle class and the *impoverishment* of the black *underclass* over the past 30 years - and especially over the last 10 years - it is quite reasonable to conclude that the

one would not have been possible without the other. The two black classes are to a significant degree two sides of the same structural coin.

Several factors contributed to the rather quick *embourgeoisement* of the black middle class. In many cases blacks have attained their elite and/or middle class status through merit, hard work and dedication. This must be acknowledged and appreciated. But what we also have to acknowledge is that the policy measures of the apartheid regime - during the crisis phase of apartheid - and the policy measures implemented by the new government, very much facilitated and stimulated the emergence of the black middle class over the past 30 years.

When Black Economic Empowerment (BEE), Affirmative Action, Employment Equity, Preferential Procurement Frameworks are debated, the ANC government regularly *motivated* those measures by two arguments: firstly that the exploitation experienced by all 40 million blacks during apartheid should be rectified, and, secondly, that the sharp inequalities in the distribution of income should be removed. I am in full agreement with both these arguments.

If we look at the manner in which "empowerment" - broadly defined - was implemented over the past 10 years, it becomes apparent that it is mainly the black middle class - and to a lesser extent the black working lower class - that are the beneficiaries of these measures, while almost none of the advantages reaches the *underclass*. At the same time the unequal distribution of income has become much starker over the past 10 years - especially that between the 35 million Africans.

The glaring discrepancy between the *motivation* of "empowerment" by the government and the actual implementation of the governments' "empowerment" programme need our serious attention.

We should remember that huge costs are involved in all "empowerment" measures. A large part of these costs are hidden, for example, the lack of efficiency and waste, the lower economic growth rate, nepotism, careerism, corruption, white emigration etc. It is, therefore, important to realise that resources available for *empowerment* purposes are *scarce* and that it should be used with prudence and wisdom and that it ought to be spent *effectively* - i.e. in accordance with well-prioritised and well-balanced programmes and strategies.

I am not complaining about the size of resources that were transferred - directly and indirectly - from whites to blacks for "empowerment" purposes over the past 10 years. The size of those resources could - and perhaps should - have been greater. But I think we have every reason to complain about the manner - and especially about the priorities - in which the transfer of resources took place.

The *prioritisation* of all the different "empowerment" programmes *lacked* proportionality and humanity. Too much resources were transferred to people at the top echelon of the black socio-economic pyramid and too many lucrative opportunities were created for the same group, while too little resources were transferred to the *underclass* and almost no new opportunities were created for them.

The attempt of the government to broaden the effect of BEE by the new Broadly Based Black Economic Empowerment (BBEE) Act is to be welcomed. But if we look at the scorecard by which companies' black economic empowerment status and their empowerment contribution will be measured, we still have reason to fear that BBEE will remain "twisted" strongly towards the top echelon of the socio-economic pyramid. There is no justification for this to continue for another 10 years.

ii) **The working lower class**

This class receives  $\pm 8\%$  of the total income. Members of this class are poor, but not desperately poor. This class lives in the twilight of the evening. The socio-economic position of some in this class has improved over the past 10 years, while the position of others have deteriorated. It is difficult to determine where to draw the line.

The heads of households in this class have access to job-opportunities in either the formal or the informal sector. Many have, unfortunately, lost their formal employment and became "casualised" workers in conditions that are often appalling. The "social income" of this class has increased due to the water, electricity, telephones, health services, housing and social security that were supplied *additionally* by the government over the past 10 years. It was mainly this class that was the beneficiaries of these services. What has been accomplished by the government in this regard, is laudable. Unfortunately, many of the new "connections" are being "disconnected" because the recipients did not have the cash flow to maintain them.

iii) **The desperately poor and non-working underclass or lumpenproletariat**

The socio-economic position of the *underclass* is not only problematic, but has become critical. The real household income of this class is almost 60% lower than what it was in 1974. It receives less than 4% of the total income. According to the recent Human Rights Commission Report, 17 million people live below the poverty line. This class has attained very little advantage from the new water and electricity "connections". This class is uneducated, unskilled and almost completely marginalised from the mainstream of economic activity. According to the newest census, 34% of all people older than 20 years is illiterate. (SSA, Census, 2001). The breadwinners of this class have limited access to job-opportunities. Their structural unemployment is deeply institutionalised. Many of them are unemployable. It is estimated that  $\pm 8$  million (or 30%) of the potential electorate of 27 million, are not yet registered for next years election and that many of them are not even in the possession of ID's. A large percentage of the adults and children in the *underclass* that qualified for social security grants do not receive these grants. Civil society organisations in the ranks of the *underclass* are either poorly organised or non-existent. The people in the *underclass* are vote-less, voiceless, pathetically powerless and even faceless.

The organisational powerlessness of the *underclass* must be appreciated against the background of the highly organised character of the rest of South African society. While the rest of South Africans have access to highly organised pressure groups to bargain for privileges, patronage and services, the *underclass* is living in an organisational vacuum. We

should, therefore, not be surprise that this class is very much neglected by the government and by different levels of the public sector.

I have the impression that the government does not understand the complexities, the magnitude and the endogenous dynamic character of the poverty problem of the *underclass*. This class's poverty is like a snowball that roll at its own momentum from a slope. The government spends more on social services, but not nearly enough to stop the poverty snowball in its track. The members of the *underclass* are the real victims of the high levels of crime and violence and of contagious disease because they do not have the resources necessary to protect themselves against the disruptive effects of these adversities.

### 3. AN INCOMPLETE TRANSFORMATION AND THE DYSFUNCTIONALITY OF OUR NEW POLITICO-ECONOMIC SYSTEM.

#### How can we explain the ongoing deterioration in the socio-economic position of the underclass?

I think it is important to consider their dismal socio-economic position within its proper historical context. In 1970 - when apartheid reached it's zenith - people in the *underclass* were already poor and very much deprived. The 20 years of struggle and of creeping poverty (1974-1994) have had devastating effects on this class. They can be regarded as the real victims of the struggle.

When African labour lost its cheapness and its docility in the 1970s, the corporate sector took defensive steps and started to replace African labour with capital. The corporate sector continues to this day with its drive towards increased capital intensity in its production methods and is employing a smaller and smaller percentage of the *potential* labour force. Increased capital intensity within the framework of global competition is responsible for growing unemployment, and growing unemployment is responsible for growing poverty.

From 1974 to 2003 the character of the South African economy was *transformed* from a system of *racial and colonial capitalism* into an *open first world capitalist enclave* that detach itself from a large part of the black labour force. During the informal negotiations on the future economic system and policy - that took place between an ANC leader core and the corporate sector - the corporate sector convinced the ANC to accept a neo-liberal and global orientated economic policy and to regard the South African economy as though it is a free-market economy and as if it is a system that is appropriate to serve the interest of *all* south Africans. This was a serious mistake. Over the past 10 years The neo-liberal and globalisation policy and the new labour laws stimulated the trend towards enclavity quite strongly - and with it the trend towards increased unemployment.

It was wrong to try to superimpose a neo-liberal and free market and globalised economic system on the ash heap of colonialism and apartheid. The *minimum* but essential conditions - of the human, social, judicial and institutional nature - that *must* be in place before a free

market economy can serve the *total* population, are not in place in post-apartheid South Africa and these conditions cannot be "created" easily or over a short period of time.

During the negotiations that took place in the early 1990s between an ANC, a white leader core and global corporations a new "social contract" was agreed upon. This "social contract" - and the compact of power and ideological orientation on which it is based - fully includes the black middle class (now 11 million people) on lucrative terms into the benefits and opportunities of the new system, it includes a part of the working lower class partially, but it excluded the *underclass* almost completely. All that was "given" to the *underclass* in 1994 was the promise that it will benefit *over the long run* from economic growth. But up till now the 2,7% economic growth that was attained annually, has "delivered" *no* trickle-down effect to the *underclass*. Even Pres. Mbeki has acknowledge recently that we cannot expect that a strong "first world economy" will automatically have a trickle down effect in favour of the "third world economy".

Our new politico-economic system is not serving the *underclass* and cannot serve it. This class is *systemically* excluded and neglected due to the deeply institutionalised *dysfunctionality* of our new system. The new system is dysfunctional because it is too strongly "geared" to serve the rich middle class (both the black and the white middle-class) and *not* "geared" to serve the impoverished black "underclass".

The challenges of the next decade will be to *transform* both the political and economic parts of our new politico-economic system in such a way that a system will be institutionalised that will operate *functionally* on behalf of *all* socio-economic classes in South Africa.

We have accomplished a remarkable political transformation. Unfortunately, our transformation is incomplete. We urgently need an additional transformation - and additional power, ideological and policy shifts - to include the *underclass* into the benefits of our politico-economic system. The *underclass* is living in the darkness and coldness of a seemingly everlasting winter night. This is unacceptable.