The TWO Economy Divide In South Africa

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The most outstanding characteristic of the South African economy is the deep and growing chasm between the First and Second Economy in our two-economy divide.

When most economists, business people and government spokespersons comment on the South African economy, they claim that the economy is prosperous and in a good state of repair. This is only a half-truth. They are talking only about the modern sector, as if it represents the total economy.

It is a pity that Trevor Manuel does not acknowledge the growing chasm separating our two economies. Instead, he is escaping once again into struggle rhetoric thetoric and lofty promises. He even claims that poor people – and not the neoliberal ethic – are at the centre of the ANC's programmes! The ANC has indeed become notorious for promising one thing and doing another.

The First Economy is modern, smart and progressive. It is engaged in global capitalism and tooled with new, capital-intensive technology. It creates job opportunities for some 12 million people and has a large tax capacity. It has very much the characteristics of the economies in the Rich North and can, therefore, be described as an open First World capitalist enclave.

Thirty years ago South Africa still had a dual economy that thrived on the employment of unskilled black labour, especially in the primary sector. At that stage the economy had the characteristics of a system of racial and colonial capitalism. Since then the modern part of the economy has experienced a remarkable modernisation. Unfortunately, this modernisation did not take place to the benefit of the total population. During the process of modernisation the modern sector became much more capital intensive and with it a large part of the (mainly black) unskilled labour force was "declared" redundant. Consequently, unemployment increased from about 20% in 1970 to approximately 40% at present (according to the broad definition) or from some 2 million to 8 million people.

The process of modernisation transformed the dual economy into the dichotomy of the two-economy divide, with growing poverty in the Second Economy.

The trend towards modernisation or "enclavity" was already well established in 1994. Since then this trend has been strongly stimulated by the policies of neo-liberalism, market fundamentalism and globalisation as implemented by the ANC government under pressure of the corporate sector. The ANC claims – with a high degree of justification – that its intervention in the First Economy played an important role in the ongoing modernisation and in the relatively high economic growth rate attained in the modern sector. Both the white and the black middleclass – or the modernists – are the main beneficiaries of government.

The Second Economy is poor, undeveloped and underdeveloped. »

It cannot generate savings and investments. It cannot create jobs except the occasional odd jobs. At the time when the dual economy was in existence, the unskilled workers employed in the private part of the modern sector could send remittances to their families in the underdeveloped sector. With the emergence of the two-economy divide after the 1970s, the amount that is flowing from the private sector in the First Economy to the Second Economy in wages has declined sharply. The income that reaches the people in the Second Economy is now mainly social grants for those who qualify for such grants. But many inhabitants of the Second Economy – those who are and between the ages of 14 years and 60–65 years – receive no or very little income. It is a serious mistake to look at the two-economy divide as if it is a dual economy.

The result of the government's interventions in the Second Economy have been dismally ineffective. Between 1992/3 and 2004/5 the share of the non-interest budget for social grants rose from 10% to almost 18%. This is no mean accomplishment, but not large enough by a long way. »

Basic services such as water, electricity and sewerage systems have been supplied to many more households, but this is not sufficient from both a quantitative and qualitative point of view – especially due to poor service delivery.

A Report by the Development Bank of South Africa this year alleges "a sober examination of government's efforts [in the Second Economy] leads to the conclusion that, despite some successes and useful experiences, it has merely dabbled thus far, especially if the increased number of the poor is considered." The Report blames this failure on "the apparent absence of a coherent, scale-appropriate strategy for the Second Economy."

The living conditions of the inhabitants of the First Economy differ so sharply from those in the Second Economy that one can allege that the two groups are living on two separate islands. The inhabitants in the First Economy (about 50% of the total population) maintain living standards that compare with those of the Rich North. Over the past eleven years their per capita income has increased by more than 2% annually. They have access to good education and health services. The majority of them are living in convenient accommodation. They are in a position to protect their property and their personal safety with high walls and good insurance policies.

The inhabitants of the Second Economy (also about 50% of the total population) maintain living standards that compare with those in large parts of the poor South or other African countries. Over the past 11 years their per capita income has either remained constant or declined quite considerably. In spite of increased social spending on the poor, the Human Development Index (HDI) of the inhabitants of the Second Economy has declined sharply since 1994. South Africa's per capita income is $11, 240 making the country the 50th wealthiest in the world. But South Africa's HDI ranking declined from 85 in 1990 to 120 (out of 177 countries) in 2005 according to this year's UN Development Report. This increasingly "skewed" relationship between per capita income and the HDI is the result of worsening levels of poverty and inequality in South Africa. It is strange that Manuel and other government spokespersons do not acknowledge the distortion.

The poverty of the poor has deepened since 1994. Several factors play a role in this process: growing unemployment, crime and violence, chronic diseases such as HIV/AIDS and tuberculosis.

Although the government acknowledges that the problems of unemployment, poverty and inequality are serious matters that need attention, it is not prepared to acknowledge that the socio-economic conditions of the poor are deteriorating. The govern- »

ment is apparently too eager to demonstrate progress in poverty alleviation and is, therefore, unwilling (or unable) to undertake a proper investigation of the root causes and the true nature of the ongoing pauperisation process.

But why is the government not institutionalising a developmental state on behalf of the poor? Early in 2005 discussion documents were circulated at the ANC's National General Council (NGC). One of the documents stated unequivocally that addressing the challenges of unemployment, low growth, continued mass poverty and deep inequalities "will require that we make a choice in favour of a broadly accepted developmental approach". The success of such an approach rests, according to the document, on the "ability of the government to act as a 'developmental' state". To attain this ability it will be necessary to create "capacity at every level of the state to mobilise and direct social, economic and political resources where they are needed most".

The document on the developmental state was not accepted at the NGC meeting. Manuel, however, writes as if South Africa is already a developmental state.

The government's structural inability to institutionalise a developmental approach, is demonstrated rather poignantly by what happened at the Expanded Lekgotha in July 2005, immediately after the NGC. A joint national-provincial task team was appointed with Deputy President Phumzile Mlambo-Ngcuka as chairperson to make recommendations focused on getting the economy into a sustained higher level of growth of at least 6% annually. The brief of the task team "is to recommend the steps that should be taken to realise this goal, and not to waste time answering whether South Africa can attain it". *The ANC Today* of 12 August 2005 stated that this higher growth rate is needed to attain "the central task facing our nation... the eradication of poverty and underdevelopment".

It is highly unlikely that it will be possible to attain a 6% annual growth rate on a sustainable level if we consider the low level of savings, the shortage of skilled labour, the low productivity of the labour force, the lack of capacity in the public sector and the relatively small influx of foreign direct investment since 1994. But what is more important is that, even if South Africa were to attain a 6% growth rate, it is unlikely that the additional 8 million or so jobs that will have to be created to cut unemployment by half in 2014 will indeed be created.

By renewing its faith in the high-growth scenario, the government is yet again escaping into the fairy tale world in which it is believed that the mythical "trickle down" effect – on which the neo-liberal »

GEAR strategy is based – would bring about the necessary job creation, social transformation and social justice. By clinging to this myth, the government is taking the country on a [illegible] that can only end in disaster.

The reason why the government has again opted for "growth" instead of "development" is its structural inability to institutionalise a truly developmental state.

Firstly the capacity needed for a developmental state is conspicuously lacking in the public sector. Secondly, private power blocks in the First Economy (in a symbiotic relationship with the ANC) wield huge influence on government decision making, while the civil society in the Second Economy is fairly powerless – at least until now.

Thirdly, our involvement in global capitalism also militates

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against a developmental approach. Global institutions and transnational corporations do not promote "development" as they claim to do, but instead seek to incorporate the ruling elites in developing countries into the global system of rewards and penalties.

Manuel claims that the ANC can say with pride that they are not slaves of market and global forces. The structural inability of the ANC to institutionalise a truly developmental approach belies this claim.

As long as the government persists with its current policy approach the chasm between the First Economy and the Second Economy will widen. The South African economy has become like two islands! The one island is drifting towards the Rich North with all the wealth and comfort associated with it.This drifting in opposite directions cannot but create tensions in the "tectonic plates" on which the South African system is built. If the "drifting" continues, the tension between the "tectonic plates" may cause them to snap apart – sooner or later.

There should be no doubt that the growing confrontation between the modernists and the populists is about much more than the destiny of Jacob Zuma. //