

## IS IT POSSIBLE TO MAKE POVERTY HISTORY IN SOUTH AFRICA?

UNFORTUNATELY NOT<sup>1</sup>

OR

## INEQUALITY IN THE DISTRIBUTION OF INCOME ... AND THE UNEQUAL DISTRIBUTION OF POWER AND PROPERTY IN SOUTH AFRICA

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### 1. MAKING POVERTY HISTORY

"Making Poverty History" is a noble idea. It ought to be the clarion call not only in South Africa, but also on behalf of the almost 3 billion people worldwide who are living on less than \$2 a day and are the "systemic captives" of the system that was aptly described by Thabo Mbeki as a system of *global apartheid*.<sup>2</sup> But as long as the power constellation and the ideological orientation presently in South Africa are perpetuated, all attempts to make poverty history will be in vain.

### 2. THE CASE FOR DISTRIBUTIVE JUSTICE AND RESTITUTION

The case for *distributive justice* to alleviate the poverty of the poorer half of the South African population (between 20 to 24 million people) is a very compelling one. The poor (almost exclusively black) have been the victims of *systemic exploitation* during several periods in South Africa history: slavery and *inboekelingskap* during the period of Dutch colonialism, Master and Servant Laws during British colonialism in the 19<sup>th</sup> century, very exploitative repressive laws (such as the Land Acts) that were enacted and strictly applied mainly on behalf of British mining corporations, several discriminatory laws enacted on behalf of poor (and not so poor) Afrikaners, and influx control and pass laws enacted to deprive Africans of bargaining power and to control their movements as if they were labour units and not human beings. On top of this, the poorer 60% of the black population was also impoverished by the creeping poverty experienced during the struggle period (1974 – 1994), when the per capita income of this part of the black population declined by more than 40%. During the past 12 years

the poverty of the poor has not only been perpetuated, but also augmented by a relentless process of *pauperisation*.

The most outstanding characteristic of the South African economy is the deep and growing chasm or fault line between the First and Second Economy in our two-economy divide. This fault line between the privileged whites and the disadvantaged black population groups was introduced during a century of segregation and apartheid. The politico-economic system that was in place during the first three-quarters of the 20<sup>th</sup> century was a political system of *white political dominance* and an economic system of *racial and colonial capitalism*. This politico-economic system was highly dysfunctional because it did not – not even nearly – serve the interests of all the different population groups. This system enriched whites *undeservedly* and systemically, and impoverished the great majority of blacks *undeservedly* and systemically. During the first three quarters of the 20<sup>th</sup> century the whites always numbered less than 20% of the total population, but due to the power, property and opportunities concentrated in the hands of the whites, they constantly received more than 70% of total income. During those 75 years blacks constituted almost 70% of the total population, but as a result of the systemic exploitation endured by them, they constantly received less than 20% of total income.<sup>3</sup> The Coloureds and Indians were in that period ±12% of the total population and received ±12% of income.

The fault line between the privileged white minority and the disadvantaged and exploited black majority was firmly institutionalised in 1974, when apartheid reached its zenith. The South African population was at that stage divided between a middle class of ±20% of the population (comprised of whites and a very small top echelon of the other three population groups) and an impoverished lower class of ±80% (comprised of the rest of the black population).

Important "power shifts" and "distributional shifts" took place during the struggle period (1974 – 1994). It is important to realise that the transformation of the politico-economic system did not take place abruptly in 1994, but during a period of two decades in which substantial power, opportunities and income shifted from whites towards an upper

<sup>1</sup> Paper prepared for the Gilbert Murray Debate organised by Oxfam, in Oxford on 17 October 2006.

<sup>2</sup> It seems necessary to me to distinguish between poverty *alleviation* and the *elimination* or *eradication* of poverty. When we talk about "making poverty history", we are talking about the elimination or the eradication of poverty. The task "to make poverty history" is therefore, a much more ambitious and comprehensive task, than to alleviate poverty.

<sup>3</sup> The per capita income of Africans declined from 9.1% of white per capita income in 1917 to 6.8% in 1970. Almost all property was in white hands, while Africans were not allowed to own property in "white" South Africa (Van der Berg and Bhorat, 1999: Table 6).

strata of ±20% of the black population. Although stagflation and creeping poverty were experienced during the transitional period, the income of the top 20% of blacks increased by more than 40% as a result of these shifts. Unfortunately, the income of the poorer 60% of blacks decreased by more than 40% during the transitional period amidst growing unemployment and socio-economic disruptions. During the transitional period the income of a large part of the whites (and especially the Afrikaners) also declined quite considerably (Whiteford and McCrath, 1994: Table 7.1 and Whiteford and Von Seventer, 1999: Table 3.6).

The socio-economic landscape changed dramatically from 1974 and 1994. The power and distributional shifts brought about a *shift* and a *deepening* of the fault line. In 1994 about 20% of blacks were a middle-class-in-the-making, while the poorer 60% of blacks were considerably poorer than in 1974. Over the past 12 years the ANC governments' black economic empowerment and affirmative action policies have succeeded in elevating the ±8 million black middle-class-in-the-making to become part of the middle class. The government's policies on behalf of the poor were, however, not comprehensive enough to alleviate their poverty. In sharp contrast with 1974, ±30% of the total population are today enjoying a privileged middle-class life style, ±50% are living in poverty and another ±20% are neither rich nor poor.

The systemic exploitation and the systemic neglect to which blacks have been exposed over decades and generations were only one side of the "systemic coin". The other side of the same "coin" has been the *systemic* and artificial enrichment of the whites – all whites – and, over the past 30 years, also the upper 20% of the black population. The upper ±8 million blacks were pampered in several ways during the two last decades of apartheid and also over the past 12 years by interventionist policies on their behalf. The extra-economic measures that brought about an enrichment of the emerging black middle class were often implemented in ways that were detrimental to the poor.

After decades and generations of systemic exploitation and human suffering, the need to restore *social* or *distributive justice* for the poor half of the population is beyond debate. It would, however, be a grave mistake to think that social justice can be restored gradually and over a long period through economic growth. It is unlikely that

South Africa would succeed in maintaining a high growth rate for a long enough period.<sup>4</sup> But what is even more important is that the nature of the growth path in South Africa is such that a trickle-down effect is even less likely. The entire new ideological elite – in privileged political, bureaucratic and corporate circles – is obsessed with the idea that a six percent economic growth rate will be a panacea that will automatically solve the social questions of poverty and unemployment. But this is wishful thinking by an ideological elite which ought to know that the fault line has become deeply institutionalized and that it cannot be removed by economic growth alone – not even by a six percent economic growth rate. In spite of the large and growing gap between the inhabitants of the First and Second Economy, the government persists with the emphasis on economic growth and in its dogmatic belief in the "trickle-down" effect.<sup>5</sup>

When deciding on a method of poverty alleviation, we have to take into account that more or less one third of the population has been enriched *systemically* and *undeservedly* over decades and generations, while the poorer half of the population has been impoverished *systemically* and *undeservedly* over the same period. Against this background the policy to attain *social justice* ought to be a policy of *restitution*; i.e. the rich (both the white and the black rich) ought to make sacrifices – much larger sacrifices than are being made at present – on behalf of the poor. If we want to make adequate progress *en route* to social justice, these sacrifices will have to be rather big.

<sup>4</sup> It is unlikely that a high growth rate of 6% or more can be reached and maintained for a long period of time if all the "bottlenecks" are taken into account: the low rate of savings, the shortage of skilled labour, the poor state of the infrastructure, the low productivity of the labour force, the serious wealth problems, the high levels of crime and violence, the lack of capacity in the public sector and the small influx of foreign direct investment.

<sup>5</sup> President Thabo Mbeki announced the government's accelerated and shared growth initiative of South Africa (ASGISA) in his state of the nation speech on 3 February 2006 as a strategy to halve unemployment and poverty by 2014. The key word is *sharing*, but there is nothing in this initiative to create a real possibility that the inhabitants of the Second Economy will be included in the benefits of growth over the next 8 years. The ASGISA initiative reminds us of Gear in 1996. The real weakness in Gear was the "r" for redistribution. Over the past 10 years no spontaneous redistribution has taken place through market mechanisms. Just as the "r" has been out of place in Gear, so is the first "s" in ASGISA. With minor exceptions, the huge infrastructural programmes announced for the next three years involve highly capital-intensive investments. Most of these investments are long overdue and will stimulate economic growth in the First Economy. Their influence on the Second Economy will be restricted. The ASGISA initiative is a growth strategy to further enrich the already rich. It is definitely not a *developmental* strategy on behalf of the impoverished millions in the second economy. Even if a 6% growth rate can be attained, it is unlikely that the additional 8 to 10 million jobs that will have to be created to cut unemployment by half in 2014, will indeed be created. (See Meth, 2004).

### 3. THE CONTROVERSY ABOUT THE POVERTY OF THE POOR

In spite of the strong case in favour of restitution, huge controversies have erupted about whether poverty and inequality have increased or decreased over the past 12 years, and whether the government's policy on poverty is adequate or not. While the ANC government and research institutes – sympathetically orientated towards the government – claim that the government's policy on poverty is successful and that poverty has declined since 1994, other research institutes claim that the government has failed dismally with its attempts to alleviate poverty and that the socio-economic situation of the poor has deteriorated quite alarmingly over the past 12 years, while income has become much more unequally distributed.

According to the *United Nations Development Report* (2005), South Africa's per capita income of ±\$12 000 per annum makes the country the 52<sup>nd</sup> wealthiest out of 177 countries. But South Africa's *Human Development Index* (HDI) ranking by the UNDP declined from 85 in 1990 to 120 (out of 177 countries). The gap between South Africa's per capita ranking and its HDI ranking was -68 in 2004. According to the SA Human Development Report (SAHDR) (2003), the gap between South Africa's per capita income and its HDI ranking was -64 in 2001 (p. 44). This gap is getting wider. We can deduce from this growing gap that South Africa's economic growth rate is high enough to maintain its per capita ranking at ±50 out of 177 countries, but that the poor have not benefited from this growth. The fact that the HDI of the poor dropped from a ranking of 85 in 1990 to 120 in 2004 is a clear indication that the socio-economic position of the poor has indeed deteriorated dramatically since 1994 and that income has become much more unequally distributed.

When Pres. Mbeki was asked in Parliament (on the 18<sup>th</sup> May 2006) about this UNDP statistics on South Africa's, his reply was that "...the UNDP statistics are wrong, patently wrong" and that he has instructed Trevor Manual to interact with the UNDP about their wrong statistics. This reaction of the president is rather shocking and a manifestation of the government's inclination towards denialism. During the same

debate in Parliament, Mbeki was told about a school of thought that alleges that the poor have become much poorer since 1994.<sup>6</sup> Mbeki's reply was as follows:

I am quite certain that there would be no logical reason why – with everything that has happened in the country – people are poorer now than in 1994. It is an illogical proposition.... I can explain clearly on what facts I would base my own conclusion [to indicate] that a school of thought that say there is an increase in poverty [since 1994] is obviously wrong.

Unfortunately, the president neither supplies any explanation of why it is *illogical* to claim that the poor have become poorer, nor any statistics to support his conclusion that the poor have not become poorer. He does, however, claim that according to statistics supplied by the UNDP the poor have not become poorer. This is definitely not what the UNDP is saying about South Africa. According to the UNDP, the number of people living in poverty has increased and that the depth of the poor's poverty has become deeper.<sup>7</sup>

Although the government often 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 government is apparently too eager to demonstrate progress in poverty alleviation and is, therefore, unwilling (or unable) to undertake a proper investigation into the root causes and the true nature of the ongoing process of pauperisation. In his book on *The End of Poverty* (2005) Jeffrey Sachs has a chapter on "Clinical Economics" in which he emphasizes that a correct and penetrating (or differential) *diagnosis* of the "ailment" of poverty is a *sine quo non* for making progress in curing this "ailment". As

<sup>6</sup> According to the 2006 annual *South African Survey of the Institute of Race Relations*, "the proportion of people living on less than a dollar a day, the measure of absolute poverty, had more than doubled since 1994". It also found that levels of inequality, measured by the Gini coefficient, have increased for the population at large and for all race groups except whites since 1994. Increases were most dramatic for the African population which saw levels of inequality rise by 21% to 0,64 on the Gini coefficient since 1996. Inequality within the coloured community increased by 17% to 0,56, the Indian population recorded a 5% increase in inequality to 0,50, while the white community saw its levels of inequality decline by 2% to 0,44. Hoogvenen and Ozier are rather explicit in their conclusion that "[economic] growth has not been *pro-poor* in South Africa as a whole, and in the instances when poverty declined for certain sub-groups, the distributional shifts were still not *pro-poor*" (2004:15).

<sup>7</sup> In its 2003 report on SA (SAHDR), the UNDP stated that "absolute poverty declined marginally between 1995 and 2002, from 51,1% of the population to 48,5 % in 2002. However, given that the population has grown in the same period, the total numbers increased from 20,2 million in 1995 to 21,9 million in 2002" (p. 41). The report also finds "...that the SA *human poverty index*, (HPI) increased from 16,4 in 1995 to 22,3 in 2001 ... indicating a worsening of human poverty in SA" (p. 45). At the same time the SA *human development index* (HDI) increased slightly from 1990 to 1995, but declined from 0,73 in 1995 to 0,68 in 2003, indicating a worsening of the situation (p. 44).

long as the ANC continues to deny the deterioration in the socio-economic condition of the poor and persists with its propaganda that it *is* succeeding in creating a better life for all and that it *is* shifting back the frontiers of poverty, the situation of the poor will NOT improve, but will continue to deteriorate as it has over the past 12 years.

'The ANC government has a poverty-alleviation policy, but it is an inadequate and a very restricted one. The spending in social services has increased from 52% of the non-interest budget in 1992 to almost 60% of the much larger budget presently. Almost 10 million people receive social grants. This is not comprehensive enough because a further ±10 million also ought to receive grants. Basic services, such as water, electricity and sewerage systems, have been supplied to many households, but these services are still inadequate from a qualitative and a quantitative point of view. The social wages of the poor has increased and it is indeed possible that the per capita income of the poorest half of the population has increased if the "social wage" is included. But in spite of this, the socio-economic condition of the poor – or their HDI – has undoubtedly declined as a result of the *endogenous pauperisation* process in the ranks of the poor.

#### 4. POVERTY TRAPS AND THE PAUPERISATION OF THE POOR

The government's disinclination to acknowledge the deterioration in the socio-economic situation of the poor is an indication that it understands neither the nature of the poverty problem nor the dynamics of the endogenous pauperisation that the poor have to endure in the politico-economic circumstances prevalent in post-apartheid South Africa. We can give a preliminary explanation of the pauperisation process in terms of several poverty traps to which the poor have been exposed over the past 12 years. To appreciate the true nature of the poverty traps, it is necessary to take into account of the chronic nature of the abject poverty in which the poorer ±50% of the population already lived in 1994 after decades and generations of systemic exploitation and neglect. In the next section I will investigate the role played since 1994 by the post-apartheid constellation of power and its ideological orientation in the pauperisation process.

The poor have been exposed to the following poverty traps over the past 12 years:

- Unemployment (according to the broad definition) increased from 30% of the (potential) labour force in 1995 to at least 40% presently - or from 4 million to more than 8 million individuals – in spite of the fact that an annual growth rate of ±3,5% was attained.<sup>8</sup>
- The drop of the worker's share of the national income declined from 52% in 1993 to less than 45% in 2004 at present, while the share of capital has increased 26% in 1993 to 30% in 2004 (Cosatu). (In a "normal" country workers' share is closer to 70%).
- Health problems, such as tuberculosis and HIV/Aids, and the lack of adequate medicine and health services have wreaked havoc in the ranks of the poor.
- Crime and violence have escalated to unprecedented levels and are mainly disrupting the living patterns of the poor, because they are too poor and too uneducated to protect themselves against such predicaments.
- The demobilisation of a large part of civil society (mainly the poor) since 1990 has left the poor without bargaining power at a time when the pressure groups in the (white and black) middle class are exceptionally well organised and in a position to influence government policy in their favour to the detriment of the poor (Johnson, 2002).
- Many social services have been privatised since 1994, in spite of the fact that the poor cannot afford to pay for those services. This situation has been aggravated by the problems experienced in the delivery of services by the (extraordinarily corrupt) third level of government.

<sup>8</sup> According to the Kindom and Knight (2005), unemployment (according to the broad definition) increased from 29,4% in 1995 to 41,8% in 2003. According to the narrow definition, it increased from 17% in 1995 to 28,2% in 2003 (p.12).

## 5. THE NEWLY INSTITUTIONALISED POLITICO-ECONOMIC SYSTEM AND THE PAUPERISATION PROCESS

A new politico-economic system was institutionalised in the 1990s after a transitional period of two decades to finally replace the old politico-economic system of white political dominance and racial capitalism. The "elite pact" negotiated between a leadership core of the ANC and the (local and global) corporate sector in the early 1990s played an pivotal role in determining the power constellation and the ideological orientation of the new politico-economic system. In the new system the *dominance* of corporatism has been entrenched and all the elite groups – in political, in bureaucratic and in corporate circles – have reached unanimity about *neoliberalism* as the ideology to legitimise the new system. The economic aspect of the new politico-economic system can be described as a system of *neoliberal (global) capitalism* strongly orientated towards promoting the interest of corporatism through unbridled capitalism and economic growth.

The entrenchment of corporate dominance and the acceptance of neoliberalism have had far-reaching implications for the poor. As soon as corporate dominance and neoliberalism were institutionalised, the manoeuvring space of the new government was narrowed to such an extent that it could no longer prioritise the alleviation of the poor. Although the ANC committed itself repeatedly – for example, in *The State of Social Transformation* (1996) – to create a "people-centred society", to maintain a "people-driven process of transformation" and to "the centrality of the concept of participatory democracy", all these noble sounding commitments became unattainable within the structure of corporate dominance and neoliberalism. What we have witnessed over the past 12 years is a strong tendency towards *democratic centralism* and a degrading of civil society, especially civil society in the ranks of the poor.

The political aspect of the new politico-economic system institutionalised in the 1990s can, therefore, be described as a system of *democratic centralism*. It suits the ANC to create the impression that political and decision-making power is vested in the hands of the people. But in reality the governance style has became much more centralized, technocratic and intolerant over the past 12 years (Habib, 2005). The electoral system

of proportional representation puts extraordinary power in the hand of the National Executive Committee and ultimately in the hands of the presidency. The proportional electoral system has made it quite easy for the government to consolidate the strong tendency towards democratic centralism.

The new politico-economic system can, therefore, be described as a system of *democratic centralism* and *neoliberal (global) capitalism*. The four pillars on which the edifice of this politico-economic system was institutionalised in accordance with the prescripts of the ideology of neoliberalism are *anti-statism*, the *liberalisation* of the flow of goods and capital, *market fundamentalism* and *global capitalism*. This politico-economic system has been highly conducive to economic growth in the modern sector (or in the so-called First Economy), but has NOT been conducive to finding a solution for the social question of poverty and unemployment. On the contrary. This neoliberal system is perpetuating, "reproducing" and augmenting the social question. Each of the four neoliberal pillars operates in a manner that is detrimental to the interests of the poor.

### (i) *Anti-statism*

The rise of neoliberalism in the USA in the early 1980s coincided with a frontal attack against state intervention with the slogan of "rolling back the state". The real reason for the upsurge of anti-statism was to create greater "space" and freedom for the American transnational corporations. After the ANC accepted American-orientated neoliberalism and anti-statism, it was no longer possible for it to seek a solution for the poverty problem through state intervention. It is against this background that we should appreciate the ANC's obsession with "redistribution through growth".<sup>9</sup> According to this approach, the social questions of poverty and unemployment should not be solved directly by government interference, but indirectly through economic growth and the "trickle down" effect. A growth rate of ±3,5% has been attained over the past 12 years, but the "trickle down" scenario has proved to be a myth. In spite of this experience, the

<sup>9</sup> The emphasis on economic growth in 1994 was perhaps understandable. The South African economy was in a particularly bad shape in 1994 after two decades of stagflation, sanctions and disinvestment. It was indeed an enormous task to get the South African economy going again and to restore its international standing. After 12 years of a satisfactory rate of economic growth, the capacity of the economy is much greater, but very little redistribution through "growth" has taken place. The poor have every reason to expect a "fairer" share of the post-apartheid growth dividend.

government remains dogmatically committed to the anti-statism of the neoliberal ideology. While the ANC is seemingly a "strong" state within its own constituency, it is a "weak" state within the power constellation of neoliberal (global) capitalism. It simply does not have the inclination, the power and the sovereignty to implement a poverty-alleviation policy that will be large and comprehensive enough to solve the social question.

The ANC was, however, granted an important exception to anti-statism when the "elite pact" was negotiated. The state was granted permission to intervene in the modern sector of the economy to create a black middle class through black economic empowerment and employment equity practices.<sup>10</sup> Although this policy approach could have made a positive contribution to *restitution*, it is driven too hard and is permeated by corruption, cronyism, nepotism, political connectedness and by the get-rich-quickly-cult to such an extent that it "consumes" too many resources. The elitist nature of the black economic empowerment process has succeeded in creating a black middle class, but this happened too quickly and too easily, while the new black elite became undeservedly too rich through "extra-economic" interventions. It is a huge contradiction that special privileges continue to be allocated to the black elite by the government with the argument that they were previously disadvantaged people, while they are in fact no longer disadvantaged. This contradiction could have been understandable if the socio-economic position of the poor half of the population was not as bad as is the case.

The governments' empowerment policy has succeeded in elevating ±8 million blacks to middle-class status, but this happened in a manner that has disempowered and impoverished the poorer 50% to 60% of the black population. Over the past 12 years more resources and opportunities were re-allocated through state intervention to the top ±8 million blacks than were re-allocated through state intervention to the impoverished 20 million blacks. The government's BEE policy can, therefore, be regarded as a new version of apartheid between the black "insiders" and the black "outsiders".

<sup>10</sup> According to Moeketsi Mbeki, the right to create a black middle class through state intervention was not a privileged "granted" to the ANC by the South African corporate sector, but was part of the strategy of the "Mineral and Energy Complex" (MEC) to co-opt the leadership core to ensure that the new government would implement an economic policy that would be to the advantage of the MEC. According to him, the terms of the agreement between the MEC and the leadership core of the ANC were detrimental to industrial development and job creation in this sector (see Mbeki, 2006: 10-11).

(ii) *The liberalisation of the flow of goods and capital*

Since 1980 the liberalisation of the flow of goods and capital has been strongly promoted by the USA and other countries in the Rich North. This policy approach has proved to be very advantageous to these countries. In sharp contrast with the social democratic approach that was in place during the 30 years after the Second World War, the policy of neoliberalism and international free trade does not emphasise full employment but the *productivity* of those labourers who are employed. To be competitive in global markets, it has become necessary to produce products as cheaply as possible with the lowest labour costs possible. Although this policy has succeeded in promoting economic growth, it has resulted in growing unemployment in Europe and especially in the Poor South.

From the perspective of countries in the Poor South, the liberalisation of trade could have been more advantageous if a level playing field between the North and the South were in place. This is, unfortunately, not the case.<sup>11</sup> The free-trade policies implemented by the government since 1994 under pressure from the WTO have not only exposed South African producers to cheap imports from the Rich North, but also to the imports of very cheap products from other countries in the Poor South such as China, India and Brazil.

The ANC has been bending backwards since 1994 to liberalise the flow of goods and capital in an attempt to meet the conditionalities of the Bretton Woods Institutions and the WTO. South Africa's re-engagement into global trade has been highly profitable for certain corporations in the modern sector, but it has caused huge job losses in especially the textile and agricultural sectors. The neoliberal policy of GEAR was implemented in 1996 to create conditions that would be conducive to the influx of FDI. The government promised at the time that an influx of FDI equal to 5% of GDP would be experienced. The influx that has occurred over the past 10 years was barely 2% of GDP. The liberalisation policy has been very conducive to economic growth in certain

<sup>11</sup> Stiglitz put it as follows: "The benefits of trade liberalisation are more questionable than the free-trade mantra would suggest, particularly when the free-trade agenda is the kind of asymmetric one that has characterised the world in recent years with developed countries insisting that the developing countries take down their trade barriers to the goods they produce, while developed countries maintain their barriers to goods of the South" (Stiglitz, 2005: 17).

sectors of the economy, but it undoubtedly harmed the job-creating capacity of the economy and exacerbated the poverty of the poor quite considerably.

(iii) **Market fundamentalism**

In accordance with the principle of market fundamentalism propagated by mainstream economists in the USA, the public at large must accept and obey the "prices" determined by (free) markets, because the market possesses a collective wisdom and if this collective wisdom is not obeyed, the efficiency and the growth potential of the economy will be seriously damaged. This is nothing but ideological hogwash. The "prices" determined by the market – and especially in factor markets – reflect not "collective wisdom" but to a large extent the distribution of power and property (both physical and human capital) in the economy. The market is like a "black box": its "outcomes" depend on what is put "into" the market. Market prices are, therefore, to a high degree a reflection of the distribution of power and property in a particular country.

When the ANC entered into the "elite pact" with the corporate sector in the 1990s and accepted the ideology of neoliberalism (and with it also the principle of market fundamentalism), it granted the opportunity to the white corporate sector and the white propertied class to "carry over" their power and property – accumulated by them, partly through systemic exploitation during the periods of segregation and apartheid – into the "new" South Africa. The most important "input" into the South African free market since 1994 has been the white power and property "carry over" in 1994. It is, therefore, no surprise that the "outcomes" of the market process have over the past 12 years been mainly to the advantage of the (white) corporate sector and the (white) property-owners class that had accumulated a large part of their power and property *before* 1994. It is against this background that we should understand the emphasis the RDP puts in 1994 on the need to fundamentally restructure the South African economy, given its "deep-seated structural crises". This proposal was, however, abandoned when GEAR was announced in 1996. It is true that some "restructuring" of white corporate power and of white property is taking place as a result of the government's BEE and employment equity policies, but these "restructurings" are not nearly what the RDP had in mind in 1994.

From the perspective of the poor and the unemployed, the economy has remained *fundamentally unrestructured*, while the "deep-seated structural crisis" has been perpetuated.<sup>12</sup> The fact that the South African economy has remained "fundamentally unrestructured" – together with the government's acceptance of market fundamentalism – has created for corporations and property owners not only the opportunity to perpetuate their power and their property in the new South Africa, but also the opportunity to *accumulate* even more power and property. But this accumulation takes place in a politico-economic system and in accordance with a growth path that are not benefiting the poor.

The "flip-side" of market fundamentalism is that the poor are still too powerless and still too propertyless to obtain a "fair" price in the (free) markets of the "new" South African. The majority of the poor are obtaining no "price" in the market because they are almost completely excluded from the market. From the perspective of the ideologues of market fundamentalism that – part of the poor that cannot get a "price" in the market is irrelevant and even "non-existent". This unfortunate situation will be perpetuated as long as all of us are expected to respect and to obey the "outcome" of the "skewed" power and property relations that have become deeply institutionalised in the South African economy during the periods of segregation and apartheid and perpetuated in the "new" South Africa. It is against this background that the middle class – both the "old" white and the "new" black middle class – will either have to make larger sacrifices on behalf of a more comprehensive redistribution (or restitution) policy or must be prepared to take the pain of a proper *restructuring* of the power and property relations of the South African economy. Of these two alternatives, the second one is preferable – especially from a long-term perspective.

The government has promised on several occasions over the past 2 years that special interventions into the Second Economy will be undertaken to "restructure" this sector and to address the challenges of this part of the economy (Mbeki, in Parliament, 21

<sup>12</sup> Isobel Frye put it as follows in a recent article: "While the new democratic government inherits a society with deep structural divisions resulting from Apartheid policies,... these divides are now exacerbated by new dynamics that further marginalize the poor....[The ANC's] unwillingness to critically engage with the structure of the SA economy in its entirety....[leads] to an acknowledgement that poverty and unemployment are a direct result of the current growth path patterns of ownership of the means of production, and the method of production favoured by business". (The article can be found at [http://www.sarph.org/documents/d0001973/Frey\\_second.economy.pdf](http://www.sarph.org/documents/d0001973/Frey_second.economy.pdf).)

May 2004). This acknowledgement that the government will have to play an entrepreneurial role in the "Second Economy" is rather promising. Unfortunately, the government's ability to intervene in the Second Economy is greatly hampered by the lack of capacity in the public sector. But what is of greater importance is that it will be counter-productive to intervene in the Second Economy while the "structure" of the First Economy, i.e. the macroeconomic policy and the market fundamentalist privileges granted to the corporate sector and property owners remains intact. It is highly necessary to move towards a *truly developmental system* in South Africa. But such a system cannot be created in the Second Economy only. It will have to be created in the South African economy as an *undivided entity*.

The real challenge facing the government is to restructure the South African economy as an undivided entity to create a market-orientated system that does not exclude the poor, but includes them in a "fair" way in the "total" economy. The question, however, is whether the government is convinced about the necessity of such restructuring and whether it has the ability and sovereignty to meet the restructuring challenge. The ANC is in all probability too much a captive of the power constellation of global capitalism to bring about this highly needed restructuring of the South African economy.

#### (iv) *Global capitalism*

The present version of global capitalism in the "global village" is based on very unequal power relations and is legitimized in terms of the neoliberal ideology. In this system power – political, economic and ideological power – is mainly concentrated in the hands of the Rich North (and especially in the hands of the USA), while the Poor South is pathetically powerless. The USA has since ±1980 used its extraordinary propaganda, financial and military power to relentlessly impose the neoliberal rules of the global economic game. It is possible to imagine a transformation of the present version of *neoliberal* global capitalism into a system in which less power is concentrated in the hands of the Americans, into a system in which power is distributed somewhat more equally between the North and the South, and into a system that is legitimized not in terms of neoliberalism, but in terms of a *social democratic* ideology

(see Held, 2004). It is, however, unlikely, that such a transformation will take place in the foreseeable future.

Thabo Mbeki has described global capitalism as a system of global apartheid. We can describe it as an American-controlled system of *neoliberal global apartheid*. All the countries that are engaged in this system of global apartheid – and especially the less powerful countries in the Poor South – have no choice but to play the global economic game in accordance with the (neoliberal) rules prescribed and maintained by the mainly American-orientated global institutions. The rules according to which countries have to play the global game are such that the countries of the Poor South have very little "space" or sovereignty to implement the highly needed *developmental* policies in their respective countries.<sup>13</sup>

Countries, corporations and individuals that play the global game in accordance with the prescribed rules are rewarded quite favourably, while those that are not playing the game according to the rules or cannot play the game according to the rules – due to lack of resources and/or level of underdevelopment – are punished rather heavily (Kirkbride, 2001: 33-34). Given the unequal power and property relations between the North and the South, and the equally unequal power and property relations between middle and the lower classes in the countries of the South, the global system of rewards and penalties rewards only the middle class in the South and co-opts and includes them systemically into the benefits of global capitalism, while the lower classes in the South are systemically excluded and penalised because they are not "fit" to play the global game.

It is a pity that South Africa did not re-engage with global capitalism in a gradual and measured way after 1994, as happened with countries in South-East Asia. After South

<sup>13</sup> Peter Evans put it categorically that the "[neoliberal] global ideology, legal rules, and economic power structures limit and distort the policy options available to the global South". He is of the opinion that "the current behaviour of the United States as an irresponsible crassly self-seeking hegemony dramatically exacerbates the negative structural features of the global system" (Evans, 2005: 195). Amit Bhaduri adds that "globalisation has turned out to be a flawed game whose asymmetrical rules are fixed to the advantage of the richer, more powerful nations" (Bhaduri, 2005: 72). Stiglitz adds the following: "The rules of the [global] game have been designed for the most part by the advanced industrial countries, or more accurately, by the special interests in those countries, for their own interests and often do not serve well the interests of the developing world, and especially the poor" (Stiglitz, 2005: 32).

Africa's re-engagement with global capitalism under pressure from the corporate sector – especially mining and financial corporations – the poor became the systemic victims of neoliberal global apartheid. Over the past 12 years the top third of the population was generously rewarded for South Africa's engagement in global capitalism and for playing the game in accordance with globally prescribed neoliberal rules. At the same time the poor half of the population have been severely punished because they are too underdeveloped, too unskilled and without the property and the aptitude to play the global game. The poor in South Africa are in the precarious and invidious position that they have been the victims of colonialism, of segregation, of apartheid and of the struggle. Since 1994 they have also been the victims of market fundamentalism and global apartheid. What makes their position even worse is that there is no prospect that their position will improve in the next two or three decades and undoubtedly not as long as the power constellation and the neoliberal ideology remains in place in the global system and in post-apartheid South Africa. The socio-economic position of the poorer half of the population has deteriorated since 1975. We are confronted with the awful possibility – even probability – that their socio-economic position will continue to deteriorate over the next 30 years if we were not going to experience a major policy shift or – more importantly – a comprehensive systemic transformation.

The edifice of the new politico-economic system is indeed firmly institutionalised on the neoliberal "corner pillars" of anti-statism, trade liberalisation, market fundamentalism and globalisation. All four of these "pillars" are strongly orientated towards the modern sector, towards the First Economy and towards the rich. None of these "pillars" is orientated towards serving the interests of the poor. As indicated above, the old politico-economic system of white political dominance and racial capitalism was highly dysfunctional. We have no option but to come to the conclusion that the new politico-economic system of *democratic centralism* and *neoliberal (global) capitalism* is also dysfunctional, although not as dysfunctional as the old one. While the old system was responsible for the *systemic exploitation* of ±80% of the population, the new system is responsible for the *systemic exclusion* of ±50% of the population. As a result of this systemic exclusion, income has become much more unequally distributed.

The fault line in the South African economy has become deeper over the past 12 years. The new politico-economic system is perpetuating and augmenting the rather serious

*distribution conflict* into the South African body politic. The really disconcerting aspect of the post-apartheid system is that the ANC government has been "co-opted" to such an extent by corporatism and by the global power constellations and their ideological orientation that it has become too "weak" to resolve the emerging distributional conflict. The poor half of the population is, therefore, faced with the prospect that their socio-economic position will NOT improve in the foreseeable future. It is more likely that their position will become worse.

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## ADDENDUM

## INEQUALITY IN THE DISTRIBUTION OF INCOME... AND THE UNEQUAL DISTRIBUTION OF POWER AND PROPERTY

## POWER CONSTELLATIONS IN SOUTH AFRICA HISTORY

1. **Dutch colonialism (1652 - ±1800)**
  - Dutch East Indian company
  - White landowning class
  - The Boere Commando
2. **British colonialism (±1800 – 1886)**
  - Colonial Office
  - British army
  - Settler establishments in the Eastern Cape and Natal
  - English media – especially the Grahamstown Journal
3. **The period of segregation (1886 – 1948)**
  - Mining and energy complex (MEC)
  - British imperialism and the British army
  - Local English establishment and the co-opted Afrikaner notables 1910 – 1948)
  - Mining press
  - Ideological liberalism and racism (Social Darwinism)
4. **The period of Apartheid (1948 – 1994)**
  - Afrikaner Establishment (NP, AB, Afrikaner business, churches, universities, press, etc. and the racial ideology of apartheid)
  - MEC
  - Mining press
  - Emerging African nationalism
5. **The Democratic period since 1994**
  - MEC and the power and property of the white business sector (SOUTH AFRICAN CORPORATISM)
  - American controlled Global Capitalism (AMERICAN GLOBALISM)
  - African Democratic centralism (Vanguardism) and African elitism (VANGUARDISM AND AFRICAN ELITISM)
  - Neoliberalism, Market fundamentalism and growthmanship (NEOLIBERALISM)

| 1890   | 1974  | 1994  | 2006 |
|--|---|---|------|
| The period of Segregation and apartheid  | The transitional period (the struggle)  | Democratic period and Neoliberal Global Capitalism  |      |
| The period of systemic exploitation of mainly the Africans.<br><br>(The Land Act, Influx control measures and several discriminatory legislation.) | The emergence of a black-middle-class-in-the-making ±25% of the blacks.<br><br>The further impoverishment of the poorer 60% of the blacks amidst creeping poverty | The further enrichment of the whites and the black middle-class<br><br>The systemic neglect of the lower 50% of the total population and a deterioration of their socio-economic position |      |

**SHARE OF INCOME BY POPULATION GROUP / SHARE OF POPULATION BY POPULATION GROUP**

|      | African (%)    | White (%)      | Coloured (%) | Asian (%)    |
|------|----------------|----------------|--------------|--------------|
| 1925 | 18,0<br>(69,0) | 75,0<br>(19,5) | 5,0<br>(9,0) | 2,0<br>(2,5) |
| 1970 | 19,5<br>(70,0) | 21,0<br>(71,0) | 6,0<br>(9,5) | 2,0<br>(2,5) |
| 1996 | 32,0<br>(76,5) | 49,0<br>(12,0) | 7,0<br>(9,0) | 5,0<br>(2,5) |
| 2000 | 46,0<br>(78,0) | 40,0<br>(11,0) | 9,0<br>(8,5) | 5,0<br>(2,5) |

**THE "ELITE PACT" AND THE PRIVILEGES OF WHITE PROPERTY OWNERS**

1. According to the negotiated settlement (or the "Elite Pact") of the early 1990s, the white middle class was given the privilege to "carry over" their economic power and property (both human and physical property) almost intact into the new South Africa.
2. An important part of the white economic power and property was accumulated in an unjust politico-economic system during segregation and apartheid (±1890 – 1990). These systems enriched whites undeservedly and impoverished blacks undeservedly.
3. White economic power and property were not only "carried over" into a new political system, but also into a "new" economic system. That was problematic.
4. The white economic power and property were "carried over" into the economic system of triumphalist neoliberal global capitalism (NGC) in 1994. It is a system legitimized by the ideology of market fundamentalism and controlled by American corporate power.
5. This NGC system has enabled the white middle class to perpetuate and to augment their economic power and property quite considerably.
6. In accordance with the principle of market fundamentalism in a system of NGC those with power and property become richer and those without power and property become poorer.
7. The politico-economic system in the period 1890-1990 was dysfunctional – it exploited the blacks systemically.
8. The present politico-economic system is also dysfunctional – it neglects and ignores the poor systemically and enriches the rich (both the white and the black rich) systemically.