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AN OVERVIEW OF THE ROLE OF THE PUBLIC SECTOR
IN SOUTH AFRICA - PAST AND FUTURE

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- PAST AND FUTURE

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1. STRUCTURAL INEQUALITIES

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

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

This is a very meaningful sentence. With it Mr Mandela defined the South African problem in a nutshell: the inequality of political power and control, the inequality of economic power and control and the inequality of property, opportunities and income. Consequently, it will only be justifiable to talk about a New South Africa if and when the reform process can "deliver" three things during the next decade or two: an appropriate system of democracy without white control of both the political process and the bureaucracy; an appropriate economic system of democratic capitalism, and, lastly, a more equal distribution of property, opportunities and income.

While South Africa is standing on the threshold of negotiating a new political dispensation, it is necessary to emphasize that the reform process will have to address much more than the narrow political or constitutional issue. To succeed with a process of political democratization, it will also be necessary to restructure the economic and social and the bureaucratic systems in an attempt to get rid of all the structural inequalities typical of the South African problem after 120 years of apartheid (in

one form or another) and of colonial and monopolistic capitalism.

In an attempt to establish what Mr Mandela meant when he referred to the "inequalities of apartheid", it is necessary to highlight at least the following six inequalities as being typical features of the apartheid-based South African society.

- (i) The inequality in the distribution of political power as symbolised by the concentration of effective parliamentary power in the hands of the National Party representing (after the September 1989-election) only 6,3 per cent of the potential electorate and by the fact that the great majority of senior civil servants are White and mainly Afrikaansspeaking.
- (ii) The inequality in the distribution of economic power as symbolised by the fact that less than ten corporate conglomerates are controlling almost 90 per cent of the value of shares on the Johannesburg Stock Exchange. This high concentration of economic power in the hands of a small group of large conglomerates is a very unfortunate and also an unhealthy feature of the South African economy.
- (iii) The inequality in the distribution of property and land as symbolised by the fact that the Land Acts of 1913 and 1936 has prohibited almost 30 million Blacks (with a few exceptions) to own land in 87 per cent of the South African territory.
- (iv) The inequality in the distribution of opportunities as symbolised by the large social spending "gap" due to the fact that the government's social spendings (on education, housing, medical services and pensions) are in per capita terms at least four times larger on the relatively wealthy Whites than on the poor Blacks. In the recent Budget social spending on Whites is estimated to be in per capita terms three times higher than the average social spending on the total population.
- (v) The inequality in the distribution of experience as symbolised by the structurally disempowerment of people other than White and the ensuing "underdeveloped" leadership potential in these circles. Political disempowerment is not only the result of disenfranchisement, but also of the impoverishment of political leadership after decades of bannings, goings, restrictions, detentions and lack of ordinary opportunities.
- (vi) Finally, the large inequality in the distribution of income as symbolised by the fact that the Gini-coefficient of 0,68 for South Africa is the largest of all countries in the world for which this kind of coefficient has been calculated, indicating that personal income is more unequally distributed in South Africa than in any other

country. If we put the per capita-personal income of the Whites in 1980 at an index of 100, those of the Asians, Coloureds and Blacks were 26, 20 and 9 respectively (in round figures).

Many reasons of an historical, cultural and demographic nature can be furnished for all these inequalities and for its close correlation with the racially defined groups. What really counts is that the structures and policies of apartheid has created and maintained, over a period of at least 100 years, social, economic and political conditions that were exceptionally favourable for Whites and unnecessarily unfavourable and even exploitative for the rest of the population. Although the structures and policies of apartheid cannot be blamed for all the inequalities, a very large (albeit indeterminable) part of these inequalities is to be blamed on apartheid.

To highlight the structurally interdependence of the many-faceted reform process in South Africa, it may be helpful to emphasize that it will be of little avail only to create a democratic political system in South Africa. What we need is an appropriate and a sustainable Democracy. But what will it take to establish a sustainable democracy? Let us try to answer this question in terms of the following six questions:

1. Will a democratic system be sustainable if the high expectations (and the conflicting value systems) on both sides of the Great Divide (between White and Black) remains intact?
2. Will a democratic system be sustainable if the large inequalities in economic wealth, power and control should be maintained?
3. Will a democratic system be sustainable if the very unequal distribution of property, opportunities and income should be perpetuated?
4. Will a democratic system be sustainable if the statutory defined groups are still to be used as building blocks of the new political dispensation and if an integrated and all-inclusive social structure is not created for South Africans?
5. Will a democratic system be sustainable if the senior positions in the civil services remains almost exclusively in White (and mainly Afrikaner) hands?
6. Will a democratic system be sustainable if the economic growth rate (and the creation of job opportunities) remain

low (say 2,5 per cent annually) because of an inadequate influx of foreign investment, entrepreneurs and technology?

The only answer one can give to all six questions, is an undisputable negation. In defining in this way the transitional problems facing South Africa, one cannot escape how momentous and time-consuming this task is going to be.

II. GENERAL TRENDS IN THE GOVERNMENT'S TAX AND SPENDING PATTERNS¹⁾

1. Total government spending

Total government spending as a percentage of GDP declined from 19,82 per cent in 1946 to 16,28 per cent in 1951 and increased gradually to 28,44 in 1976, declining again to 24,15 per cent in 1980. It further increased from 27,21 per cent in 1982/83 to 32,25 per cent in 1987/88 and to 32,45 per cent in 1989. (See Tables 1 and 2 and Figure 1.1).

It is clear that a strong attempt was made during the second half of the seventies towards a reduction in the general (i.e. total public sector) government expenditure ratio. These years of fiscal restraint coincided with a decline in the government's capital expenditure.

2. Public capital expenditure

The government's fixed investment increased sharply from 1,6 per cent of GDP in 1945 to an average of 4,45 per cent in the period 1970-1976 and then declined to an average level of 2,5 per cent in the period 1985-1989. In the 1991/1992 Budget it declined to only 1,8 per cent of GDP. It seems as if the high level of current expenditure by the general government in the 1980's, has had the effect of crowding-out public capital expenditure.²⁾

1) This part is mainly based on an unpublished paper of Prof. S van der Berg, Redirecting Government Expenditure, delivered to a workshop on Budgeting for Redistribution, Gordon's Bay, 24-28 February 1991.

2) It seems as if there is truth in the statement of the World Bank: "Public sector investment has been particularly prone to cutbacks during fiscal crisis in developing countries" (World Bank, 1988, III).

TABLE 1

RESOURCES CONSUMED AND RESOURCES TRANSFERRED
 BY GENERAL GOVERNMENT (percentage of GDP at market prices)

	RESOURCES CONSUMED		RESOURCES TRANSFERRED				TOTAL		
	Con- sump- tion	Fixed Invest- ment	Sub- Total	Inte- rest	Subsi- dies	Current Trans- fers		Capital Trans- fers	Sub- Total
1946	10,11	1,60	11,71	1,26	1,43	3,83	1,60	8,11	19,82
1951	8,63	1,89	10,52	0,83	1,31	2,23	1,41	5,78	16,29
1956	9,13	2,35	11,48	0,69	0,94	2,37	2,14	6,15	17,63
1961	9,46	3,11	12,57	0,77	0,72	2,45	1,93	5,87	18,44
1966	11,35	4,01	15,35	0,89	0,92	2,28	2,42	6,50	21,86
1971	13,20	4,78	17,98	1,36	1,22	1,65	2,84	7,07	25,05
1976	14,61	4,54	19,16	1,57	1,36	2,61	3,74	9,28	28,44
1981	14,77	3,24	18,01	2,61	1,44	2,14	1,60	7,79	25,80
1986	19,30	2,60	21,89	4,37	2,34	3,03	1,35	11,08	32,98
1989	20,38	2,31	22,69	4,75	2,07	2,06	0,88	9,76	32,45

Sources: Van der Berg, S. op.cit.

TABLE 2

ECONOMIC-FUNCTIONAL CLASSIFICATION OF GENERAL

GOVERNMENT EXPENDITURE AS PERCENTAGE OF GDP (% of GDP at market prices)

	1982/83	1987/88
Total	27,21	32,25
Current	23,83	29,99
Capital	4,25	3,77
1. General Government services	2,38	2,82
2. Defence	4,08	4,48
3. Public order and safety (Protective services) (Total)	1,58 (6,66)	2,22 (6,70)
4. Education	5,10	6,23
5. Health	2,81	3,35
6. Social security & welfare	1,77	2,06
7. Housing & Community services	0,60	0,74
8. Recreation & culture	0,50	0,51
Total: Social services	(10,78)	(12,89)
10. Economic services	5,37	5,84
11. Unallocatable	3,01	3,93

Source: Van der Berg, S. op.cit.

TABLE 3

GENERAL GOVERNMENT EXPENDITURE CLASSIFIED BY BROAD ECONOMIC FUNCTION

	1982/83	1987/88
EXPENDITURE (R-million)		
Interest	3 168	8 415
Defence	3,477	7 822
Administration	3 188	8 169
Economic Services	4 581	10 219
Social Expenditure	8 767	21 635
AS % OF GENERAL GOVERNMENT EXPENDITURE		
Interest	13,67	14,93
Defence	15,00	13,88
Administration	13,75	14,49
Economic Services	19,76	18,13
Social Expenditure	37,82	38,38

AS % OF GDP

Interest	3,72	4,81
Defence	4,08	4,48
Administration	3,74	4,67
Economic Services	5,38	5,85
Social Expenditure	10,29	12,38

TOTAL	27,21	32,25
Current	23,83	29,99
Capital	4,25	3,37

Source: S van der Berg, Op.cit.

FIG. 1 RESOURCES USED AND TRANSFERRED BY GENERAL GOVERNMENT AS PERCENTAGE OF GDP

Fig.1.1 Consumption ratio

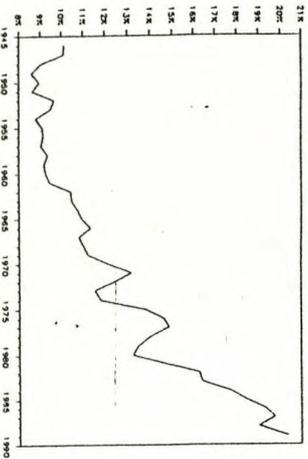
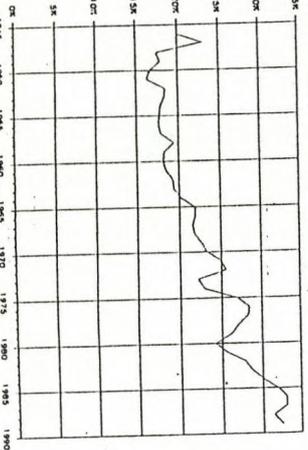


Fig.1.2 Total expenditure ratio



The relatively high level of public capital expenditure in the first half of the seventies reflects the high infrastructural investment of that period. Almost unrestrained optimism about South Africa's growth potential was at that time maintained in NP-government circles. Looking back there can be little doubt that the infrastructural expansions during that period was excessive and wasteful. But as a result of the much lower public capital expenditure in the 1980's and early 1990's an increasing deterioration of capital and infrastructural facilities occurred. The effect is an increasing disrepair of roads, the costs of which are borne by commuters and motorists through increased wear and tear on vehicles.¹⁾ It seems as if we will have to accept that en route towards a New South Africa, infrastructural facilities are going to deteriorate even further. It can deteriorate to a level that can create serious bottlenecks.

3. Remuneration of government employees

The period since the 1980's showed a strong rise in expenditure on remuneration of government employees (Figure 3), countering significant real declines in real remuneration in the late 1970's. Two factors contributed to this. On the one hand, the number of black teachers rose sharply, which, combined with the elimination of discriminatory salary scales, put strong upward pressure on remuneration expenditure. On the other hand, the government, afraid of losing its civil service support, announced a number of sharp increases in their remuneration, notably at the time of the 1983 referendum on the new tricameral constitution. This strong upward trend in expenditure on remuneration of government employees, is also a reflection of the rather extensive "network of patronage" that has become a distinctive feature of the Botha-

1) The World Bank notes that "developing countries have lost road infrastructure worth billions of dollars through insufficient maintenance... The cost of restoring deteriorated roads... is three to five times greater than the bill would have been for timely maintenance. ... insufficient road maintenance exacts hidden costs several times the cost of restoring road infrastructure. These hidden costs, borne primarily by road users, can become a heavy drag on economic growth." (World Bank, 1988:114)

TABLE 5

COMPOSITION OF TOTAL EXPENDITURE OF
CENTRAL GOVERNMENT, 1989/90, 1990/91, 1991/92

	1989/90	1990/91	1991/92
Other	0,3	5,0	1,6
Economic services	13,4	12,5	11,5
General services	9,7	10,9	12,0
State debt cash cost	15,1	14,8	14,8
Protection services	23,1	20,2	19,5
Social services	38,4	38,6	38,6
TOTAL	100,0	100,0	100,0

FIG. 3 REMUNERATION OF GOVERNMENT EMPLOYEES AS PERCENTAGE OF GDP

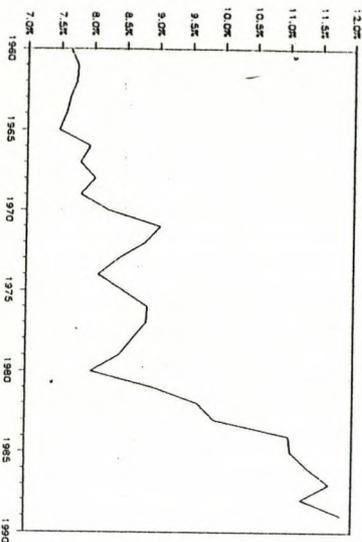
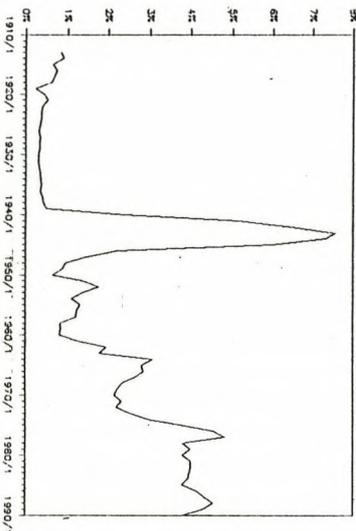


FIG. 4 DEFENCE EXPENDITURE AS PERCENTAGE OF GDP



government during the 1980's.¹⁾

4. Defence expenditure as percentage of GDP

Defence expenditure as a percentage of GDP increased rather sharply since the early 1970's. It increased from 2,2 per cent of GDP in 1972 to a plateau above 4 per cent (See Figure 4). It increased from 4,08 per cent in 1982/83 to 4,48 per cent in 1987/88. During this period our "Public order and safety" increased from 1,58 to 2,22 per cent (see Table 2). The continued high level of defence expenditure can be explained by the decision to hang on to Namibia at virtually any cost and the triumph of "total onslaught" thinking in government circles. Van der Berg estimated that if defence spending did not rise above its 1972 level of 2,2 per cent of GDP (a level which appears to be realistic for a peaceable regional power), the savings in the period 1973 to 1990 would have amounted to about R75 billion in 1990-Rand. The opportunity cost of the Angolan War and the "total strategy" against the "total onslaught" was thus very great: This amount would have been adequate to build 1,9 million fully serviced houses, far in excess of the housing backlog of about 1,2 million units (according to Urban Foundation estimates). Though these funds are irretrievably lost, the calculations give an indication of the gains to be made by reducing defence spending to more realistic levels, and doing so rapidly. This has already been started in the past two financial years. But further decreases are imperative (see Section IV below).

5. Social expenditure as percentage of GDP

Social expenditure of the general government as a percentage of GDP increased from 10,29 per cent in 1982/3 to 12,38 per cent in 1987/8 (see Table 3). As a share of general (i.e. total public sector) government expenditure, it rose only marginally from 37,82

1) One is inclined to wonder what happened with the Botha "network of patronage" since Pres De Klerk has become head of State. It is a rather important question because - to change the metaphor - many of the Botha-gravy trains will have to be redirected during the transitional period. Given the serious Budget constraints it would hardly be possible to put new (Black) gravy trains on track without phasing out some of the old ones.

per cent in 1982-83 to 38,38 per cent in 1987/88. (See Table 3). This small increase during that part of the 1980's must be regarded as disappointing. The attempt at co-option of some formerly excluded groups into the racial oligarchy by way of the tricameral parliament could have been expected to increase social expenditure, even though the numbers of coloureds and Indians are relatively small. But of the four items of social expenditure, it was only (non-tertiary) education which showed a gain in its share in the budget. In particular, despite large increases in the real average value of black, coloured and Indian social pensions and in the numbers of beneficiaries, social welfare expenditure remained relatively low. This may point to a low priority given to welfare services. The relatively low level of social spending in the 1980's stands in rather sharp contrast to the rise in the remuneration of government employees and the high level of defence spending. These trends are a clear indication of what we could call the "skew" priorities during the Botha-years.

6. Discrimination in social expenditure

One of the most outstanding features of government spending in South Africa is the discrimination of social spending between the four population groups. This discrimination reflects the fact that the needs of (the relatively wealthy) whites have received far more attention than warranted, while those of (the relatively poor) other groups have received by far too little.

During 1986/87 the per capita social spending on Whites was R879, on Coloureds R564, on Indians R547 and on Blacks R214. If the per capita spending on Whites is put at an index of 100, the spending on the other three groups were 64, 62 and 24. (Table 4A)

As we can see from Table 4B (estimated by Servaas van der Berg) parity within the constraints of the existing social budget in 1986 would have implied a two-thirds reduction in White benefits from government social expenditure on primary and secondary education, health and social pensions (housing was for present purposes excluded) to even substantially below the level of benefits received by coloureds. An increase in social expenditure on blacks as well as a great reduction in expenditure on Whites were therefore required.

TABLE 4A
GOVERNMENT SOCIAL SPENDING, 1986/7: ACTUAL AND PARITY REQUIREMENTS (in billion Rand)

	White	Coloured	Indian	Black	Total
TOTAL SOCIAL SPENDING (in billions of Rand):					
Actual spending	R4,3b	R1,7b	R0,5b	R5,4b	R11,9b
Parity spending:					
If white standards were the norm	R4,3b	R3,5b	R0,9b	R25,5b	R34,2b
Within existing overall social spending constraints	R1,5	R1,2b	R0,3b	R8,9b	R11,9b
POPULATION	4 892	3 013	914	25 178	32 997
PER CAPITA SOCIAL SPENDING (Rand):					
Actual spending	R879	R564	R547	R214	R361
Parity spending:					
If white standards were the norm	R879	R1 162	R985	R1 013	R1 036
Within existing overall social spending constraints	R307	R398	R328	R353	R361

TABLE 4B

THE COSTS OF PARITY IN SOCIAL EXPENDITURE AND OF MEETING HOUSING NEEDS (in 1986 Rand and as percentage of GDP at market prices):

	Present expenditure	Conservative estimate	Liberal estimate
EDUCATION	R6 752m	R23 986m	R27 676m
SOCIAL PENSIONS	4,8% of GDP R1 878m	16,6% of GDP R3 700m	19,2% of GDP R5 220m
HEALTH	1,3% of GDP R4 020m	2,6% of GDP R6 031m	3,6% of GDP R8 021m
HOUSING	2,8% of GDP R1 023	4,2% of GDP R1 711m	5,6% of GDP R3 508m
TOTAL SOCIAL EXPENDITURE	0,7% of GDP R13 673m	1,2% of GDP R35 428m	2,4% of GDP R44 425m
OTHER GOVT. EXPENDITURE	9,5% of GDP	24,5% of GDP	30,8% of GDP
TOTAL GOVT. EXPENDITURE	17,9% of GDP	17,9% of GDP*	17,9% of GDP*
	27,4% of GDP	42,4% of GDP*	48,7% of GDP*

Sources: Van der Berg, S. (See also Appendix)

On the other hand, Table 4 shows that parity at prevailing white levels of expenditure in the allocation of government social expenditure on these items would have required an almost fivefold increase in social expenditure benefiting blacks, from R5,4 billion to R25,5 billion in 1988/87. This confirms that eliminating discrimination in public social expenditure patterns without reducing resources devoted to Whites is a policy of vast immediate redistributive consequence, tantamount in its impact on the racial allocation of resources to a R27,5 billion increase in total black incomes in 1986 - and this does not even consider the impact on future black incomes through improving human capital. If it was the intention of the Minister to reach parity at present while benefit levels in the recent Budget, it would have been necessary to increase the present "social budget" from ± R32 billion to more or less R96 billion! (See Appendix for a more detailed version of Van der Berg's analysis of the social spending "gap".)

III. THE CHANGED PATTERN IN THE COMPOSITION OF TAX REVENUE

In a country with such a strong need to attain a high level of economic growth on the one hand and such a strong need to increase the level of social spending on the other hand, the tax policy of the government can play a strategic role. In choosing between different forms of taxation the government should be, on the one hand sensitive about the impact of taxation on initiative, on saving and on economic growth. On the other hand the government needs large amounts of public funds to increase spending on social services, on Black upliftment and to remove the worst forms of inequality and poverty.

It is the declared intention of the government to bring about a shift from direct to indirect forms of taxation. In spite of this intention the government was up till now not successful in lessening the direct tax burden on individuals. The contribution of income tax on individuals increased from 15,7 per cent of Inland Revenue in 1980/81 to no less than 37,5 per cent in 1991/92 (Table 6). During the 1980's direct tax on individuals as a proportion of their current income rose from 6,3 per cent in 1980 to 11,2 per cent in 1986; it then remained constant until 1988, to rise again to 12,9 per cent in 1990 (see Chart 1).

Chart 1

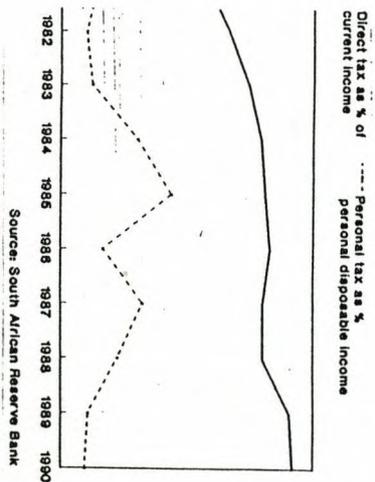


Chart 2

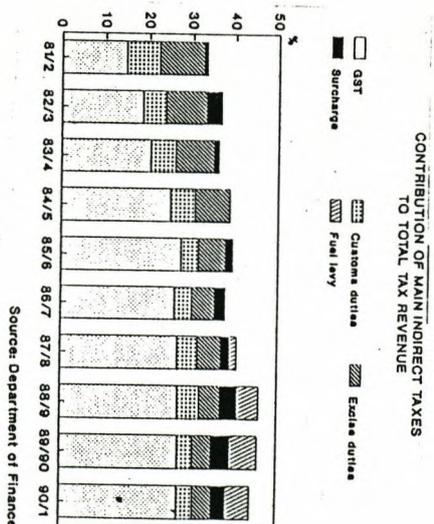


Chart 3

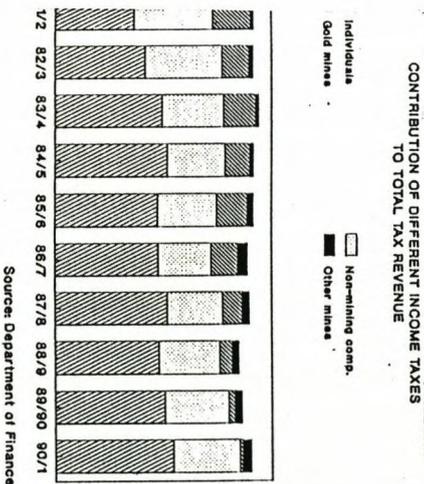
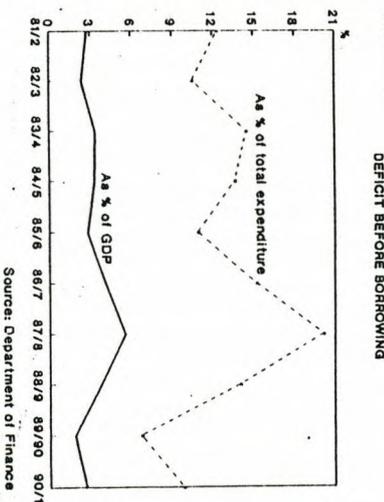


Chart 4



The contribution of Sales Tax increased from 12,4 per cent of Inland Revenue in 1980/81 to 25,7 per cent in 1991/92 (Table 6).

As shown by Chart 2, good progress was made from 1981/82 to 1989/90 towards the goal of raising the share of indirect tax: over this period the indirect/direct tax ratio grew from 0,60:1 to 0,84:1. In 1990/91, however, the ratio fell to 0,76:1.

The main reason for the very sharp increase in the contribution of income tax on individuals - in spite of the much larger contribution of Sales Taxes - is the dramatic decline in the contribution of Income Tax on Gold Mines. Its contribution declined from 21,0 per cent in 1980/81 (a year in which the gold price was still relatively high) to a meager 0,7 per cent in 1991/92! (Table 6).

Chart 3 shows the contribution of different income taxes to total Tax Revenue (not to be confused with Inland Revenue). Individual Income tax comprised 21,9 per cent of total tax revenue in 1981/82, 30,4 per cent in 1989/90 and 32,7 per cent in 1990/91. Non-mining company tax fell from 21,7 per cent of total tax in 1981/82 to 14,7 per cent in 1986/87; it then began to rise again, to 18,4 per cent in 1990/91.

The contribution of gold mines to total tax revenue has fallen continuously since 1981/82 (a year in which the gold price was still relatively high): from 10,7 per cent in that year to a mere 0,9 per cent in 1990/91. By contrast, that of non-gold mining companies rose from 0,7 per cent to 2,4 per cent over the same period. Chart 3 also shows that the share of income tax in the total tax table has remained relatively constant since 1981/82.

Of all the predicaments in the South African economy, the financial position of the gold mine industry is undoubtedly one of the most serious. The gold mine industry for decades played a dominant role in the South African economy as a dynamo in the process of modernisation, as the creator of job opportunities, as the earner of foreign exchange and as a source of government revenue. But because of the relatively low price of gold, the sharp increases

TABLE 6
COMPARISON BETWEEN 1980/81, 1985/86, 1988/89, 1991/92

	TAX REVENUE					% Change on 1990/91
	1980/81 Rm (%)	1985/86 Rm (%)	1988/89 Rm (%)	1991/92 Rm (%)		
<u>Income Tax on:</u>						
Individuals	2 090 (15,7)	8 361 (28,5)	13 832 (28,8)	28 100 (37,5)		27,6%
Non-mining companies	2 417 (18,1)	4 804 (16,4)	8 096 (16,8)	13 550 (18,1)		9,3%
Gold mines	2 794 (21,0)	2 453 (8,4)	1 694 (3,5)	505 (0,7)		-20,0%
Other mines	211 (1,6)	484 (1,6)	857 (1,8)	1 259 (1,7)		-22,2%
Sales Tax	1 653 (12,4)	8 050 (27,4)	12 944 (26,9)	19 240 (25,7)		5,8%
TOTAL: Inland Revenue	11 833 (88,9)	27 225 (92,8)	41 102 (85,5)	66 632 (89,0)		13,0%
Customs & Excise	1 477 (11,1)	2 094 (7,2)	6 969 (15,5)	8 230 (10,5)		-2,3%
TOTAL: Inland Revenue	13 310	29 320	48 071	74 866		11,1%

Source: Statistical/Economic Review, 1990/91.
Budget Review, 20 March 1991.

Note: Figures do not add up because smaller taxes have been omitted.

in the wages of mineworkers since 1972 and perhaps also because of inadequate technological development in the gold mine industry, the profitability of many gold mines has decreased dramatically. In an attempt to keep as many mines as possible alive - given the continued role of the gold mine industry as an earner of foreign exchange and as the provider of job opportunities, - the government presumably had no choice but to make large tax concessions to this industry.

As indicated in Table 6 the contribution of Non-mining companies towards Inland Revenue has remained almost stable during the period from 1980/81 to 1991/92. Given that the annual growth rate of real GDP was only one per cent during the 1980's, the profitability of non-mining companies were also relatively low during the 1980's. Consequently it was not possible to increase the contribution of non-mining companies to Inland Revenue.

The problems encountered by government to levy enough taxes due to the low growth rate and the low levels of the gold prices, caused relatively serious problems during the 1980's in financing total government expenditure - especially if we keep the high level of defence spending during the 1980's in mind. Consequently the Budget deficit before lending was relatively (too) high during the 1980's (see Chart 4). The Budget deficits before lending fluctuated between 10 and 20 per cent of Total Expenditure during the period 1981/82 - 1990/91. As a percentage of GDP it increased from less than 3 per cent in 1981/82 to almost 6 per cent in 1987/88.

Given the relatively low level of capital expenditure by government during the 1980's, (it dropped from 3,24 per cent of GDP in 1981 to less than 2,0 per cent in 1990) the relatively high level of the Budget deficits before borrowing during the 1980's must be deplored. It did not only increase the public debt considerably, but it was also responsible for negative savings during a period when the levels of savings dropped to alarmingly low levels. In the recent Budget the deficit before borrowing is R10,1 billion or 3,4 per cent of GDP, while the total amount of capital expenditure by government is estimated to be only R5,4 billion or 1,8 per cent of GDP. This tendency of "dissaving" by the government should not be allowed to continue.

IV. AN INTERPRETATION OF THE RECENT BUDGET

An analysis of the tax and spending patterns of the government over the last decade will be incomplete without focusing on the recent Budget. If the fiscal patterns over the last three years are taken into account, we can perhaps detect trends and features typical of the De Klerk-period.

The initiatives of Pres F W de Klerk are supposed to bring about shifts away from racism towards non-racism and from security towards equity. To what extent does the 1991/92-Budget (and the public sector in general) reflects these shifts and, if so, has it happened to a satisfactory degree?

As indicated in Table 8, expenditure on "Protection Services" dropped from 23,1 per cent of Total Central Government spending in 1989/90 to 19,5 per cent in 1991/92. The actual spending on Defence dropped from R10,3 billion in 1989/91, to R10,07 in 1990/91 and to R9 187 in 1991/92. While 15,2 per cent of the budget was spent on Defence in 1989/90 only 11,0 per cent will be spent on Defence in 1991/92. If the spending level on Defence of 1989/90 had been maintained in 1991/92, an additional R3,6 billion would have been spent in 1991/92 (see Budget Speech 1991/92). Although this "saving" on Defence is meaningful, it must be regarded as inadequate if the De Klerk-approach is as "revolutionary" different from the Botha-approach as claimed by government spokesmen.

Before the 1991/92 Budget was tabled, it was expected that Social Spending might increase from 38 per cent of the budget to more than 40 per cent. This has unfortunately not happened. In spite of a reasonable increase in spending on education, the social spendings in 1991/92 will still be less than 39 per cent of the Budget. We therefore have to conclude that the second Budget tabled during the De Klerk period, has not brought about a significant shift from "security" towards "equity". A significant shift from "security" towards "equity" would probably have necessitated a drop in spending on Defence to, say, 7 or 8 per cent of the Budget and an increase in Social Spending to say 42

per cent of the Budget. Other shifts in spending priorities should also have been explored to increase Social Spending in an all-out attempt to get rid of the remaining racist orientation of the Budget and to get rid of the worst (structural) inequalities, and the worst forms of poverty and backwardness en route towards the New South Africa.

Given the disappointment with the 1991/92 Budget, one can only express the hope that this will be the last Budget compiled by the NP-government. Hopefully the political parties representing the disenfranchised part of the population, will be granted the opportunity to partake in one way or another in the planning and drafting of future Budgets - even if all kinds of derailments take place in the negotiation process.

The Minister of Finance said during his Budget speech that "simultaneous and rapid progress on all fronts (of social spending) ... is the ideal, but unfortunately it is simply not affordable". If one takes into account the sharp structural inequalities between the population groups (as mentioned in Section I) as well as the severe nature of the widespread poverty, the question is not whether the government can afford the fiscal cost of "simultaneous and rapid progress" in Social Spending on other groups, but whether the government can afford the social and political costs of NOT making "simultaneous and rapid progress on all fronts" of Social Spending "gaps".

An outstanding feature of the recent Budget is the greater contribution income tax on individuals will make to Inland Revenue in 1991/92. The contribution of income tax on individuals will increase from R22 billion in 1990/91 to R28,1 in 1991/92. Its contribution to Inland Revenue will increase from 32,6 per cent to 37,5 per cent. At the same time the total tax which companies will have to pay will decline rather sharply. Because of the switch from GSR to VAT, companies will also experience a windfall of between R6 billion and R8 billion in a full year - or R3 billion in the current fiscal year.

The greatest disappointment of the 1991/92 Budget must be blamed

on what we can call the De Klerk Philosophy as it crystallised from both the White Paper on Land Reform and the theme of "Equity through Growth and Stability" of the 1991/92 Budget. To embark on a police of Land Reform without appropriate Redistribution measures after the Land Act of 1913 was maintained for almost 80 years, shows not only a complete lack of sensitivity about the exploitative nature of the "dispossessing" Land Acts, but it reflects also a dangerous misjudgement about the functioning of a market-orientated economic system. To recall the Land Acts and to inform the impoverished and deprived Black population to "do your thing in the market economy", will result in nothing but a new version of "highway robbery". As we will point out below, the market mechanism has a good track record on efficiency but a very poor one on justice and equity. To expect that the market should bring about a more equitable distribution of land after the Blacks have been "dispossessed" for a period of 80 years in 87 per cent of the country, is therefore indicative of the Government's complete misunderstanding of the merits and demerits of a market-orientated system. Or is it indicative of the fact that the NP-government is still a sectionalistic government that still shows too much sensitivity to its own constituency and still far too little sensitivity to the deprived Black constituency?

V. THE ROLE OF THE GOVERNMENT AND/OR THE PUBLIC SECTOR IN A NEW SOUTH AFRICA

1. Freemarketeers, Reaganomics and Thatcherism

The role of the government and/or the public sector in a future South Africa, has recently received increased attention in the public debate. Unfortunately this debate has been pre-occupied mainly by shortterm transitional problems and by the low level of economic growth. Consequently some of the fundamental issues

concerning the dividing line between the private and public sectors - and the role of these two sectors in a New South Africa - have either been neglected or have been obscured by the deliberate propaganda of the Free-market lobby.

The Freemarteteers have experienced a field day in South Africa over the last 15 to 20 years. They have attained remarkable - but often not warranted - success in convincing the government about the alleged merits of a market-orientated economic system with a large and unfettered private sector, a weak (or small) state and about the alleged "unproductive" nature of the public sector. The popularity of the Thatcher- and Reagan-governments and its strong "leaning" towards privatisation and decreased government involvement in the economy, gave strong - but not always warranted - impetus to many of the arguments of the freemarteteers. Unfortunately the sharp differences of circumstances in highly industrialised countries like the United Kingdom and the United States on the one hand, and a developing country like South Africa on the other hand, were not taken into account to the necessary degree when stands are taken about "redrawing" the dividing line between the private and public sectors in South Africa. Until the end of 1989 the debate on privatisation and a decrease of the government's involvement in the economy (i.e. because of the "unproductiveness" of the public sector), was very one-sided and far too strongly orientated towards the freemarteteers' plea for a weak state and an unfettered private sector.

One of the doubtful "successes" attained by the freemarteteers is to convince the government about the alleged "unproductivity" of the public sector and to "solve" the problem by decreasing the role of the public sector. As pointed out above, the Minister of Finance said in his Budget speech that "it is one of the government's explicit aims to gradually reduce the total tax burden". This implies a decrease in the size of the public sector.

The argument of the freemarteteers about the greater "productivity" of the private sector vis-a-vis the public sector, is based on a false analogy and on an attempt to measure activities in the public sector with the measuring rod of the private sector. The public sector is not in the first place (or at all) supposed to be "productive" in the same sense of the word as the private sector is supposed to be "productive" and "profitable". The public sector as a whole is supposed

to be "productive" and "profitable". The public sector as a whole is supposed to be "functional" to promote the "common interest" or the "social welfare". This does not imply that it is not necessary for the different sections and/or departments in the public sector to attain a high degree of efficiency and cost-effectiveness in the use of scarce resources. On the contrary.

In Section V, 6, B(ii) below, we discussed the problems the public sector has to solve in an attempt to reach a higher degree of efficiency, cost-effectiveness and discipline. In spite of the fact that these problems cannot be solved easily (or simply by decreasing the role of the public sector), the public sector should not be judged in terms of its "productivity" and its direct contribution towards Economic Growth, but in terms of its "functionality" and its direct contribution in promoting Social Welfare. (In certain sections of the public sector - for example in the case of public corporations - the measuring rod of "productivity" can be applicable and an argument for privatisation can arise.)

Private concerns in the private sector are, however, supposed to be "productive" and "profitable" and must make direct contributions towards Economic Growth with the purpose to promote Social Welfare indirectly. We should, however, be aware of the fact that private concerns can be extremely "productive" and "profitable" and contribute to Economic Growth, but because of all kinds of market failures they may not promote the Social Welfare but may instead promote some "ill-fare" for society at large. (See Section V

In any attempt to "redraw" the dividing line between the private and public sectors, we should be careful regarding the meaning and use of words like "productivity" and "functionality". We should also distinguish carefully between the public and the private sectors' respective contributions towards Economic Growth and Social Welfare and be aware of the complex relationship between Economic Growth and Social Welfare. At the same time we should also be aware of the different disciplinary methods used in the private and public sectors to reach a high degree of "efficiency" and/or a high level of "economizing" in the use of scarce resources. When a plea is made for the proper role of the public sector in a future South Africa, it should never be interpreted as a plea to relax "discipline" and to compromise on the principle of "economizing". As we will point

out in Section V 6 (ii) below, the public sector faces extremely difficult problems concerning control and discipline. But the answer to these problems is not a weak and minimal state and a too small public sector. Looking at it from another point of view, it will be unwise to plan for a small public sector as if it will be possible to convince future democratic governments that it will be advantageous to have a small public sector while the probability is large that a future democratic government will be inclined towards "statism".

Since the unbanning of the ANC, the SACP and other liberation organisations on 2 February 1990, the debate on the role of the public sector has fortunately become more many-faceted and better balanced. The whole issue around the dividing line between the private and public sectors, their interdependence and their respective roles and "productivity" and/or "fundamentality" in a New South Africa is, however, still very much in a state of flux. Consequently it may be valuable to give a short overview of the functions of a modern government (and/or the public sector) in a developing country like South Africa and to reconsider the interaction between the public and the private sectors.

2. A First government function: To maintain internal and external order - including orderly administration and judicial function.

There is normally no dispute about this function. The dispute is mostly about the size of spending on protective services like the Defence Force and the Police. Given the socio-economic inequalities, the different levels of cultural and other development and the long and unfortunate tradition of on-going group and/or ethnic conflict in the South African history, the future government of a New South Africa will have a difficult and (probably) growing task to maintain internal peace and order. Hopefully the expected increased spending on internal peace and order will be offset by decreased spending on Defence.

3. A second government function: To supply and to develop fiscal and institutional infrastructural facilities and to provide certain public goods.

Given the large geographical area of South Africa and the fact that a large percentage of the fast-growing population has not been supplied

with modern institutions and organisations, and with certain public goods, all future governments will have a growing task to supply, to maintain and (if possible) to upgrade the fiscal and institutional infrastructure and certain public goods and facilities in a democratic future South Africa.

During the Apartheid period all kinds of duplication in the supply of administrative and other infrastructural facilities took place. In the transition towards a non-racial democracy, many of these duplications will be eliminated and we can experience the benefits of a post-apartheid "dividend". Although the size of this "dividend" may be quite substantial, we must be careful not to underestimate the increased needs for appropriate infrastructural development - both fiscal and institutional - in a New South Africa.

4. A THIRD FUNCTION: TO IMPLEMENT MACRO-ECONOMIC POLICIES TO PROMOTE (ECONOMIC) STABILITY, ECONOMIC GROWTH AND ECONOMIC VIABILITY

To perform this task it is often not necessary for a government to get actively involved in economic activities on a large scale. But if the needed initiative, investment and growth are not forthcoming from the private sector, a future South African government may have no choice but to play a more active role to generate enough savings and to stimulate investment for the maintenance of a reasonably high level of economic growth. (See the government's "Entrepreneurial function" in point 7 below).

It is estimated that South Africa needs a growth rate of 5,5 per cent annually to absorb the annual growth of the labour force. The modern sector in the South African economy has become very capital intensive for a country with a population composition like South Africa. During the past 30 years the capital/labour ratio has increased by 300 per cent (partially because of the implementation of wrong policy measures as part and parcel of the apartheid system). On the other hand net savings has (mainly because of the low growth rate and the high level of inflation) declined from 13,5 per cent of GDP (as was the average from 1960 - 1978) to the relatively low level of 7,5 per cent of GDP (the average from 1982 - 1990). To attain an annual growth rate of 5,5 per cent (as was accomplished from 1960 - 1973) more than 50 per cent of net investment will have to be financed from foreign sources

if net savings rate remains at the relatively low level of 7,5 per cent of GDP. If the inflation rate remains at a level of 14 per cent, an average annual net inflow of more than \$10 000 million will then be necessary to maintain a 5,5 per cent growth rate. It is unlikely that an influx of foreign investment of at least \$10 billion will take place even if sanctions could be lifted and a reasonable degree of social and political stability can be maintained. If the Western world can supply South Africa with say \$5 billion Official Development Aid for say 5 years as a kick-start, it will ease our transitional problems enormously.

The transitional and/or future governments will have an enormously difficult task to create and maintain a climate conducive to invite the largest possible amounts of foreign investment and/or to generate a higher level of net savings and to stimulate investment in attempts to increase the economic growth rate and to improve the job creating ability of the South African economy.¹⁾

During the transitional period from "white" democracy and the Tricameral Parliament towards a truly democratic system (with representatives of the total population in the new parliament), very large additional demands on the economy will be generated in and through the political arena. At the same time the concept of "social welfare" will be redefined and broadened to include not mainly the "welfare" of the whole population group, but the "total welfare" of all 38 million people and it will be expected that the "new" political and economic system should promote the (newly defined) Social Welfare instead of the (mainly) "White Welfare" as has happened in the apartheid-based South Africa (see Section V 6 B (iii) below).

These additional demands that will be created through the new political and economic system could have far-reaching macro-economic implications and could cause hyper-inflation, serious balance-of-payment problems and large state budget deficits. Very strict fiscal and monetary measures will therefore be necessary to contain the very likely overburdening of the South African economy. Given the vulnerability of

1) See Sampe Terreblanche, The need for a transformation period towards a post-apartheid South Africa, Economic Papers, No 3, Centre of Contextual Hermeneutics, University of Stellenbosch, 1991.

the economy after the poor growth performance over the last 16 years, a too sharp increase in the (macro-economic) claims on the economy can indeed cause economic collapse.

It is doubtful whether the traditional fiscal and monetary measures will succeed in containing the additional claims that in all probability will be unleashed during the Transitional period. Consequently it will be necessary to use all possible methods of moral constraint - be it of an emotional, a religious, a political or a patriotic nature - to scale down demands and expectations - in both White and Black circles - and to convince everybody about the relative poverty of South Africa. It is important to realise that if "political" reform succeeds to enable Blacks to use Parliament as a "political lever" to exert legitimate claims - something of which they were deprived in the apartheid-based system - the "Total Demand" on South Africa will increase, the scarce productive resources will prove to be "more scarce" and all South African as a whole will be relatively poorer. Everyone should be convinced of this simple "economic arithmetics".

As has already been indicated, social spendings are far too small and far too unequally allocated between the different population groups to sustain a democratic system in a future South Africa. All future governments will have the gigantic task of bringing about - as soon as possible - parity in social spending and to maintain standards of education, health and housing that will be for a civilised and/or "civilising" country. This task alone will be so demanding and will necessitate such large increases in not only social spending but also in total government spending. Those who propagate or hope for a decrease in government spending (as a percentage of GDP) in a New South Africa, are undoubtedly guilty of a lack of realism. In the years ahead the question will not be whether government spending (as a percentage of GDP) will increase or not. The question will be how to slow down the inevitable increase, how to allocate the social spendings between the different groups and demands and how to finance it - especially if we do not succeed to maintain a high economic growth rate.

5. A FOURTH FUNCTION: TO COMPENSATE FOR THE GREATER VARIETY OF

MARKET FAILURES COMMON TO ALL MARKET-ORIENTATED ECONOMIC SYSTEMS

The theory around market failures is a complicated one. The core

idea is that individualistic motivated and individualistic orientated activities in a (non-perfect) market economy may for several reasons not be conducive to promoting the welfare of the total population - i.e. the social welfare of the larger society. When a clear case of a market failure occurs, a need and/or justification for government intervention arises. But before government intervention can be considered, the possibility of all kinds of "bureaucratic" and/or "political" failures must also be taken into account. The potentially negative effects of government intervention on social welfare must therefore be weighted against the potential positive effects of compensatory actions to correct the market failures. A short discussion of both market failures and bureaucratic failures can prove to be very valuable. (This kind of analysis has not received the attention in South Africa that it deserves.)

A. MARKET FAILURES

These failures are mostly connected with (i) space, (ii) time, (iii) power and (iv) people.

(i) Market failure connected with SPACE:

Many activities of individuals and firms have side-effects or external effects that are not reflected fully or sufficiently in market prices. The result is a wrong mobilisation and/or allocation of scarce resources. The accumulative effect of the so-called externalities (for example on the environment) can be very negative on the welfare of society at large. The phenomenon of externalities demands not only continued vigilance but also compensatory measures from the government or other (subsidised) public organisations. The environmental decay in certain parts of South Africa - for example the Homelands - already gives reason for great concern. The level of "environmental plundering" may not be as bad as in Eastern European countries, but it is bad enough to demand decisive government intervention. We must be very much aware of the bottlenecks that could develop because of the scarcity of certain key resources (like water) and the high population growth rate.

(ii) Market failure connected with TIME:

Almost all participants in market activity - on both the supply and

demand sides - are often lacking the necessary telescopic capacity. Consequently they are inclined to discount the (distant) future at a too high (discount) rate in favour of the short or medium term. The low level of personal savings at present is an example of this tendency. Many of the so-called "developing" people in South Africa, are, for cultural reasons, not strongly enough orientated towards the future. The business sector in South Africa - even the large conglomerates - has lately been guilty of rather serious forms of "short term-ism". Even dogmatic "freemarketeers" ought to acknowledge the need for government intervention to compensate for the different kinds of "short term-ism" experience in South Africa. Many of the responsibilities that the government accepted under the heading of "social spending" (as discussed above) can be justified as necessary to compensate for the underdeveloped telescopic capacity of the different players in the market economy and their inclination to spend too little on their own development.

A new kind of short term-ism that spells nothing good for the long term future of South Africa is busy exerting itself lately. It is the phenomena of impatience in the ranks of the liberation and democratic movement and especially in the ranks of the Trade Union Movement. On the one hand one is inclined to have sympathy with this impatience after what people other than Whites have suffered during the decades of apartheid and oppression. On the other hand it is of the utmost importance that every South African should realise that Rome was not built in one day and that South Africa cannot be rebuilt (after 120 years of apartheid) in less than say 20 years.

Since the NP has become a so-called reform party at the beginning of the 1970's, it has constantly been inclined to do "too little too late". Even the De Klerk government has not been freed from this NP ailment. But on the other hand the democratic movement and especially the (New) Trade Union Movement should not underestimate the dangers of "too much too soon". Given the vulnerability of the South African economy and the damage done to it by sanctions and disinvestment, it will not be difficult to destroy the economy if too much is demanded in too short a period of time from the economy and its tax capacity. To regain a reasonable position in the international markets for manufactured products - especially (Black) labour-embodied industrial products - wages of unskilled and semi-skilled labour should remain relatively low. The Trade Union Movement could be guilty of a very serious

market failure if it should use its bargaining power - especially in a democratic New South Africa - to increase wages to levels out of step with productivity and out of line with South Africa's international competitiveness. In many non-democratic countries in the earlier stages of development, it has proved to be not only necessary but also relatively easy to keep wages at a low (and unfortunately often at a too low) level. But if a Trade Union Movement in a newly attained Democracy does not practice self-restraint but makes itself guilty of short-termism, it will be extremely difficult for the democratic government to enforce both wages restraint and high enough levels of savings.

En route towards a New South Africa we hear lots of talk about a (new) Social Accord. If both employers and employees - or organised business and organised labour (and the New democratic government) - can all agree that short-termism (in whatever disguise) will be a deadly sin in the next decade or two and that all commit themselves not to be guilty of it, the economic prospects for a New South Africa with a market-orientated economic system will improve dramatically.

(iii) Market failure connected with POWER

Although no economic system - and least of all a market-orientated economic system - can operate efficiently without a relatively large concentration, and an unequal distribution of power and control, this does not imply that all forms of power concentration and the maldistribution of it should be condoned. On the contrary. A market-orientated economy is supposed to be a competitive system with a reasonably wide dispersion of power and with a not too unequal distribution. The unequal distribution of wealth, power and control is in most capitalistic countries a source of strength and dynamism, but also responsible for some of the worse market failures - especially the resulting unequal distribution of income and opportunities. It is therefore in the long term interest of all market-orientated systems that the government should intervene to compensate for the failures connected with "inequality of power" and to do it in such a way that the dynamism of the system will not be unnecessarily harmed.

The South African economy has become notorious for its extreme inequalities in the distribution of property, power and control. Apart from the economic power and control concentrated in the hands of the

so-called Commanding Heights, a large part of the (remaining) economic power and wealth is concentrated in the hands of the White population group. Over the long run the unequal distribution of economic and organisational power (in the hands of the Commanding Heights and in the hands of the Whites) will have to be "reconstructed" as part and parcel of *Wirtschaftsordnungspolitik* (see the Seventh function below). But as long as a large concentration of power exists in the private sector of the economy, the power concentrated in the hands of the government and the bureaucracy ought to play the role of countervailing forces. The fact that "economic" and "political" powers can operate as countervailing forces, is often regarded as one of the main advantages of a Capitalistic system vis-a-vis a Socialist one. Over many years the Afrikaner orientated "political" power and the English orientated "economic" power operated as countervailing forces. Lately a rather close (and perhaps too close) liaison (or an unwarrented love relationship) has developed between the "Afrikaner" public sector (or "Pretoria") and the "English" private sector (or "Johannesburg") while "Soweto" is not yet playing its proper role in the power game. In a New South Africa this liaison (between "Johannesburg" and "Pretoria") will have to change. Hopefully it will be replaced by a new "countervailing" relationship between a "democratic" public sector and a "capitalistic" private sector. Given the high concentration of (economic) power and control in the private sector, we will need a "strong" public sector to act as an effective countervailing force.

The experience in countries with market-orientated systems proves that in this kind of system "efficiency" is often bought at the cost of inequalities in income and wealth and in the social status and power that go along with income and wealth ... (While) the ethical case of capitalism is totally unpersuasive, the efficiency case is thoroughly compelling¹⁾ Because of the almost universal failure of the market in the "ethical case" of distribution, the governments and public sectors in countries with market orientated systems, has to implement comprehensive redistributive measures to "restore" greater justice and greater equality in property, income and opportunities. Given the large inequalities in almost every facet of the South African society and the structural character of these inequalities, the

1) Okun, The Big Trade-off, pp 51 & 64.

governments of a New South Africa will have to implement rather drastic redistributive measures. To hope that these matters can be implemented in a painless and non-disruptive manner, is completely unrealistic. And to think that the process of redistribution - also the redistribution of land - can be left to the "market", is even more unrealistic as we already stated above (see Section IV).

(iv) **Market failures connected with PEOPLE**

Many market failures are connected with people. These failures resulted from the fact that people as human beings are not homo oeconomicus or "economic robots" (as pictured in Neo-Classical models) and are therefore not always motivated by "money" considerations as an effective and efficient functioning of markets may demand. At the same time private concerns in a market economy is motivated to increase their profits and are not in the first place concerned with the demands and aspirations of people. We should therefore not be surprised that capitalism is everything but a "people-orientated" system and that people are often "dehumanised" in the capitalist system.

Before a market-orientated economy can operate reasonably effectively, the people participating in the system, should have attained a certain level of development, a certain kind of rationality, a special kind of motivation and a necessary orientation towards competition and towards the future. It goes without saying that the majority of the South African population does not have the inclination, the skills, the property, the motivation, the rationality and the competitive spirit to operate effectively in both the factor and consumer markets in South Africa. Consequently the government of a New South Africa will have to accept special responsibilities to protect, to (re)educate and to develop a large section of the South African population to participate effectively in the different markets. (See the next part on Social Spending).

In all market-orientated systems rather important market failures occur because of different kinds of "irrationalities" and "imperfections" in the factor markets - i.e. the labour, capital and land markets. South Africa is no exception in this regard. The "labour" markets operate exceptionally unsatisfactorily. The potential labour force is 14 million but only 8 to 9 million can obtain job opportunities

in the modern sector of the economy. The capital markets operate equally unsatisfactorily. Not only is the modern sector by far too capital intensive (because the prices of labour and capital does not reflect the true scarcity values of the relevant factors), but the supply of investable funds (both internally and foreign funds) is far too small. In the "land" market, land is exceptionally unequally distributed as a result of the Land Acts. (The government policy to bring about land reform without land redistribution, has no merit at all and will have to be changed.)

Given all the imperfections and "irrationalities" in the factor markets, a future government will have to play - as did present and past governments - a rather active role in all the factor markets in an attempt to attain a more effective mobilisation and a more efficient application and allocation of (scarce) production factors. Hopefully the intervention of future governments in factor markets will be more constructive and less sectionalistic than has been the case with the large-scale intervention of past governments.

B. BUREAUCRATIC AND POLITICAL "FAILURES"

These "failures" are mostly connected with (i) POWER, (ii) lack of (effective) CONTROL and (iii) lack of (appropriate) KNOWLEDGE.

(i) **Bureaucratic "failures" connected with POWER**

Just as a concentration of economic power is necessary for an efficient operation of the market, a (temporarily) concentration of political power and a (permanent) concentration of bureaucratic power is also indispensable for an efficient operation of the political system and the public sector. But as uncontrolled and unchecked economic power are normally misused, the same is true of political and bureaucratic power. The root cause of political and bureaucratic "failures" is therefore to a large degree connected with the misuse and the corruption of uncontrolled - or not effectively controlled - political and bureaucratic power. South Africa is no exception in this regard.

The apartheid system was aptly described by Mr Mandela as a system in which a "white monopoly of power" exists. All the many failures and injustices of the apartheid system can to a large extent be explained in terms of the misuse of this "white monopoly of political power".

Perhaps we should not be too critical of the hostility shown by "liberals" against the idea of increased government intervention in a New South Africa. The track record of government intervention in South Africa - from the days of Jan van Riebeeck until today (but especially in the Afrikaner period) - is not an encouraging one. In the South African history almost all government intervention took place to promote sectionalistic interest and to allocate favouritism to small groups. Many people are afraid that this tradition of government intervention on behalf of small group favouritism and blatant sectionalism will be continued in a New South Africa. The problem is however not "situated" in political power and government intervention per se but in the lack of effective control and discipline.

Prof. Karl Popper addresses the problem of "who should rule" - i.e. Who should have (political) power - in a rather original way. He (re)formulates the problem as follows: How is the state to be constituted so that bad rulers can be got rid of without bloodshed, without violence? He answers that the best chance to "solve" this problem is to institutionalise a "democracy". He is in favour of a democracy not because it will guarantee a "good" ruler, but because "democracy" offers, according to his judgement, the best chance of all possible political systems to "avoid a situation in which a bad ruler causes too much harm". (The Economist, 23 April 1988).

If the constitution of a New South Africa - in contrast with the tradition in most African countries (South Africa included) - can be "constructed" in such a way that today's government party and/or coalition can (and will) become tomorrow's opposition party or coalition, then there is no reason why we should not have a "strong" state and a large public sector playing an active and interventionist role as an Entrepreneurial and Developmental State in the New South Africa. (See point 6 below)

We very much need a "Popper-like" constitution and a strong interventionist state in a market-orientated system to solve South Africa's pressing economic problems. It is not difficult to predict that it is more likely that the South African political and economic system in the future will be rather more "statist" than "liberal". It is more likely that we will have a strong government with large-scale government involvement in the economy than a weak and small government with "minimal" state intervention. Consequently it is of decisive importance that we shall try to build as many "Popperian" checks and

balances into the new constitution to make sure that bad rulers will not stay too long (and definitely not 43 years!) and that it will be possible to get rid of such rulers before they have done too much harm.

The apartheid system and the "white monopoly of political power" has been bad over the last four decades because of a too strong concentration of political power in the hands of the NP. It has also been bad because it concentrated too much bureaucratic power in the hands of the White Afrikaners. After the NP came into power in 1948, it used (and misused) the public sector for Afrikaner upliftment and to solve the so-called "Poor White Problem". Even if the point is granted that some kind of Afrikaner "patronage" was justified after decades of almost "malign neglect" of the poor White problem by "English-orientated" governments, the scale and time-span of the NP-government's favouritism towards Afrikaners (and especially employees in the public sector) was completely overdone to the point of corrupting the beneficiaries. It is rather unfortunate that the public sector in South Africa has become an extension of the NP. (Something that we should not overlook is that the "public sectors" in the Homelands and the "public sectors" of the two new Houses in Parliament, have also become extensions of the "ruling" parties in the new "parliaments" and that even worse forms of favouritism and patronage have developed in these new "public sectors".)

The problem is that White (and especially Afrikaner) sectionalistic favouritism and patronage has become institutionalised to such a long period that the beneficiaries of the system has become spoiled to such a degree that it would be terribly difficult to "dismantle" the "system". This is part of the wider problem i.e. the "monopolisation" of economic and political power in White hands has created structural inequalities in the sense of (structurally) undeserved wealth and (structurally) undeserved poverty. We will have to "uproot" the inequalities as part and parcel of the wider process of structural reform. How are we going to succeed in doing this?¹⁾

1) It is rather sad that the government (and specifically Pres. F W de Klerk) is not prepared to acknowledge a political conversion, is also not prepared to make a confession of guilt about the unjust immoral exploitations that took place (and are still taking place) because of the apartheid system and is also not prepared to commit

(ii) Bureaucratic "failures" connected with the lack of effective CONTROL:

An important reason for political and bureaucratic "failures" is the lack of effective political and bureaucratic discipline and control. We already discussed the need for a democratic political system that will ensure that the government of today can (and will) be replaced and become the opposition of tomorrow. If a new political constitution for South Africa does not succeed to accomplish this, the new system will not be worthy of the name "democracy".

How to discipline and control the public sector effectively and to ensure an efficient use of scarce resources, are difficult problems. In contrast with the private sector the discipline of "profit-and-loss-accounts" - or for that matter the discipline of the "bottom-line" - is not available in the public sector. The fact that private concerns in a market-orientated economy can - and indeed does - get bankrupt, must be regarded as one of the most important virtues of this kind of economic system. The absence of the relentless discipline of the "bottom-line" in the public sector, creates the possibility that "bankrupt" departments, or sections of departments, or policies or persons can continue undisturbed. I am not trying to create the impression that there is no control or no reasonably effective methods of control in the public sector. But none of these methods are as effective, as relentless and as impartial as the "profit-and-loss" account in the private sector.

The absence of "profit-and-loss-accounts" in the public sector is to a large extent responsible for the typically bureaucratic "failures" experienced in the public sector: (a) the strong tendency towards incremental growth of the public sector (incrementalism); (b) the tendency towards the proverbial bureaucratic waste and red tape

1) (Cont.) itself explicitly towards a policy of restitution (or at least be prepared to negotiate about the way the "apartheid debt" is to be repaid - i.e. in what instalments and over what period of time). This paper unfortunately does not offer the opportunity to discuss the government's unpreparedness towards a conversion, a confession and restitution at length. Suffice to say that it will in all probability not be possible to address the terrible legacies of apartheid - as it resulted from the misuse of the "White monopoly of power" - if the government is not prepared to experience a political conversion, to make a confession of guilt and to commit themselves towards restitution. The positive symbolic effect such action will have on Black perceptions and attitudes should not be underestimated.

(red-tapism). (The Afrikaans word of "rompslomp" is a very descriptive and appropriate one!); and (c) the tendency towards "empire-building" in departments or sections of the public sector and (d) the tendency towards favouritism and patronage (i.e. of becoming - sometimes unknowingly - a passenger on the gravy-train.¹⁾)

The bureaucratic "failures" that resulted from a lack of effective discipline in the absence of the (relentless) "profit-and-loss-accounts", is of course a universal problem and not limited to South Africa. But the fact that this NP has been in office for 43 years, that the bureaucracy has become an extension of the NP (both ethnically and ideologically) and that the bureaucracy has developed as an integral and supportive part of the apartheid structure, undoubtedly aggravated the "normal" bureaucratic "failure" enormously in the South African case. In the transition towards a New South Africa it will be necessary to get rid of all the "abnormalities" and "skewness" that have "grown" into the South African bureaucracy. To "reform" the bureaucracy in an attempt to restore "normality" will demand inter alia the following measures: (a) the "deAfricanisation" and the "Africanisation" of the public sector - both to the necessary degree; (b) the phasing-out of the gravy-trains from the bureaucracy, the NP and (lately) also in the business community and to "reroute" some of them towards the constituencies of the future government(s); (c) the integration and the restructuring of the apartheid-based public sector to make it functional for a non-racial democratic South Africa; (d) the recruiting and the (re)training of a new corps of civil servants and the development of a sound "public ethos" and a loyalty towards the New South Africa; (e) the introduction of effective planning, programming, budgeting and controlling systems for the "new" and possibly larger bureaucracy of the New South Africa. None of these five tasks will be easy. But there are very important parts of the "restructuring"

1) In mentioning these typically bureaucratic "failures" I am not questioning the sincerity or integrity of individual public servants. Many of them show remarkable integrity and a high level of public awareness, dedication and loyalty. In mentioning these "failures" I am referring to the bureaucracy as a "system". As is the case with other "systems" or "structures" those that operate within the "system" become (sometimes unknowingly) a "victim" of the "weaknesses" or "seductions" of the "system". It is also true - and perhaps to a greater degree - that those operating in the capitalistic system, become "victims" of the "weaknesses" and "seductions" of the capitalistic system. And what about university professors? John Mayor said recently that many of them are "wholly useless and without commonsense". Blame it on the system!

of the South African system.

(iii) Bureaucratic failures connected with a lack of (appropriate) KNOWLEDGE

The lack of appropriate knowledge is often an important reason for political and bureaucratic "failures". If we accept that it is the main task of the public sector (broadly defined) to operate in such a way that the "common interest" or the "public interest" will be promoted and that it is the government's task to "complement" the private sector or to compensate for the "market failures" to promote the "social welfare", then the public sector can only succeed if there exists a clear notion of or sufficient knowledge about the "common interest" or the "public interest" or "social welfare". For a successful or effective operation of the public sector it is therefore necessary to define and to redefine these concepts in concrete terms, to have clarity about the priorities of public policy and to have knowledge about the conflicting relationships between the priorities and about the (technical) trade-off between such conflicting priorities. Appropriate knowledge about the true "content" of "social welfare", about priorities and about trade-offs is not easily attainable and this "knowledge problem" has been very much neglected in the public debate in South Africa. We should not only blame the political (and the apartheid system) for this neglect, but also social scientists.

The neglect of social scientists to account themselves about the true meaning of concepts like "common interest" or "social welfare" can be ascribed partly to the philosophic and ethical nature of the problem, but also to the relatively widespread inability of social scientists to reach consensus about the meaning of "common" and "social" in concepts like "common interest" and "social welfare". Given the strong individualistic tradition in Western countries, there exists a strong current of thought - especially in mainstream or neo-classical economies - that "social welfare" cannot be anything but the sum total of "individual welfare" with the implication that the "social" in "social welfare" cannot refer to a "collectivity" denoting something more than the sum total of individual interests. Even if this individualistic interpretation of "social welfare" is accepted, serious problems concerning the measuring and summation of individual welfare are encountered. The construction of a welfare function in terms of individualistic

orientated Pareto optimality, reaches a point where value judgement becomes inevitable.

If the reference to "society" in the "welfare of society" - or "social" in "social welfare" - is regarded as a collectivity or a "whole" that represents something more than the sum of the individual members, it raises controversial philosophical problems. Perhaps the most convenient way out of this dilemma, is to conceptualise the "common interest" or the "social welfare" of a country in terms of (or with the assistance of) the social structure or institution's use in the public arena to address all the issues regarded as "public" or "common". Although this "structural" approach towards defining social welfare - has many advantages and can assist policy scientists to reach a reasonable approximation of the meaning or content of social welfare in a specific country, this approach also has its limitations - especially in countries with poorly developed public institutions. According to Samuel Huntington a very close link exists between political institutions and the definition or conceptualisation of the common interest:

"Political institutions have moral as well as structural dimensions. A society with weak political institutions lacks the ability to curb the excesses of personal and parochial desires ... Without strong political institutions society lacks the means to define and to realize its common interest ... The existence of political institutions capable of giving substance to public interest distinguishes politically developed societies from undeveloped ones ... The relation between the culture of society and the institution of politics is a dialectical one. Community ... means the institutionalisation of trust, and the essential function of public authorities is to increase the mutual trust prevailing at the heart of the social whole. Conversely, the absence of trust in the culture of society¹⁾ provides formidable obstacles to the creation of public interest".

Huntington regards developed political institutions as a necessary means to define and to realise a country's common interest (or its social welfare). He also alleged that political institutions have moral as well as structural dimensions. Developed political (and for that matter also economic) institutions are not only necessary to create (well-structured) opportunities for the different pressure groups to state their case, but also to create opportunities for an on-going "national debate" to reach a collective consciousness and a collective conscience on values and on the moral dimension of the common interest or the social welfare. The function of developed

1) Huntington, S P, Political Order in Changing Societies, New Haven, 1968.

political and economic institutions are necessary not only to "measure" the already existing preferences of individuals and groups, but also "to curb the excesses of personal and parochial desires". Developed institutions in a well-integrated society, its part and parcel of the broadly based cultural process of education, re-education and on-going public debate necessary to define values and to give substance to the public interest or the social welfare.

South Africa is not simply a country that - in terms of Huntington's "structural" approach to social welfare - lacks strong and developed political and economic institutions like many developing countries. In contrast to those countries, South Africa does dispose over strong and highly developed institutions for mainly the White population group, but the political and economic institutions and opportunities available for the other population groups are very poorly developed.

Given the "skew" or one-sided nature of the apartheid-based political and economic institutions in South Africa, the existing system must be regarded as "under" or "wrongly" developed to such a degree that it must be judged as incapable of giving the necessary "content" or substance to the social welfare or the common interest of the total South African population. Because of the "separateness", the animosities and the endemic group conflict during many decades of apartheid, the South African society is lacking the mutual trust that should prevail before a "social whole" and common values can come into being.

In the apartheid-based South African society, the highly developed and cohesive nature of political and economic institutions for the white population group has the implication that the "group interests" and the "group welfare" of the white group has been defined, articulated and promoted in an exceptionally effective manner. Unfortunately, the definition and the realisation of "white welfare" within the apartheid structures has happened to the detriment of not only the "group interests" of the other population groups, but also to the detriment of the "common interest" or social welfare of the total population of 38 million people. In the absence of developed political and economic institutions for the South African population as a whole - and given the "skewness" and unreliability of the "common interest" as was historically defined by the apartheid structures - very special problems face the policy scientist who wants to make a reasonable

conceptualisation of the true nature and content of what the social welfare of all 38 million South Africans are or should be. This is a problem that needs special attention en route towards a New South Africa.

We must be aware of the fact that if new democratic institutions can be developed and the new institutions succeed to give "content" and operational effect to the "social welfare" of the total population, additional demands will be generated by the new parliament. These additional demands can easily overstrain the capacity of the South African economy. To ensure that the South African economy is not destroyed in the transition from a situation where the "White group welfare" was mainly promoted to a situation where the "social welfare" of all 38 million should be promoted, the only chance to prevent the overstraining of the South African economy will be the scaling down of the too high aspirations on both sides of the great dividing line between black and white. But there can be no doubt that the present relatively (too) high living standards of the Whites will definitely not be maintainable in the New South Africa.

6. A FIFTH FUNCTION: TO SUPPLY SOCIAL SERVICES AND TO BRING ABOUT APPROPRIATE HUMAN DEVELOPMENT

In today's world the government's function as supplier of social services and its task of taking responsibility for human development is accepted and acknowledged to such an extent that it is perhaps not necessary to elaborate on it. But given the sharp inequalities in the government's social spending on the different population groups and the high rate of population growth, social spending is going to exert very high and growing fiscal pressure on the South African economy. It is therefore necessary to focus briefly on the motives for social spending.

Almost all the different forms of social expenditure - i.e. on education, health services, pensions, housing and poverty relief - are in one way or another connected with market failures. Given the individualistic nature of the market and the short term time frame, the participants in the market are inclined to make inadequate "investment" in their own education and human development. Or, to put it differently, most people are inclined to underestimate the long term "productivity" of "investment" in their own (and their families') human development.

It took the "revolution" in human investment in the 1950's and 1960's to convince people and governments about the need and benefits of the high spendings on human development.

It is however not only the individual lack of the necessary telescopic capacity that necessitates large scale government involvement in education, but also the market failures that results from the fact that the market is not a people, but a money and profit orientated system.

In a developing country like South Africa where such a high percentage of the population has not reached the level of "development" and does not have the skills and "mindset" to participate effectively in the market, the government's responsibility to "prepare" the majority for effective participation in the market, cannot easily be overemphasized.

The strongest argument for increased social spending in South Africa is to create better opportunities and better access for the poor and deprived Black population and to compensate for the injustices and discriminatory effects of both the apartheid system and monopolistic and colonial capitalism. The high concentration of political and economic power in the hands of the Afrikaner and English Establishment were responsible for a very unfortunate market failure as far as the neglect, the "non-development" and the oppression of the majority of the population is concerned. High social spending is therefore necessary as part and parcel of affirmative action to compensate for the misdeeds of the apartheid era. In this connection increased spending on poverty relief should perhaps enjoy a much higher priority than has been the case until now. About 50 per cent of the population is not in a position to satisfy their basic human needs. En route towards a new South Africa the government should launch a comprehensive Poverty Relief programme to reduce this percentage radically by the end of this decade.

The pace at which the social spending gap can be closed during the transformation period without overstraining the tax capacity of the economy, depends on several imponderables of which the growth rate of GDP is the most important. If a growth rate of 5,5 per cent can be maintained for ten years during the transformation period, the percentage of GDP needed to attain parity at white benefit levels will decline

from 31 per cent to 22 per cent in terms of the 1986 GDP. (It is estimated that a growth rate of 5,5 per cent, i.e. twice the population growth rate, will bring about an increase of more than one-third in the per capita income.) While parity in social spending at white benefit levels would have necessitated total government spending of 48 per cent of GDP in 1986, this will decline to 36 per cent at the end of the transformation period if a 5,5 per cent growth can be maintained during this period.

Social spending of 22 per cent and total government spending of 36 per cent of GDP at the end of a ten year transformation period is unfortunately still unattainable. It would perhaps become possible to reach parity at white levels of social spending at the end of a ten-year transformation period if spending on the white group can be scaled down by say 20 per cent during that ten-year period. During a period of relatively high growth this kind of scaling down of white social spending may be possible without seriously endangering social stability. Fortunately the level of social spending on whites is relatively high (perhaps too high) in terms of comparable international income levels.

If an economic growth rate of say 6,5 per cent can be maintained during a ten-year transformation period, reaching parity of social spending at the present or at somewhat lower white levels at the end of the transformation period may be possible. But to maintain a 6,5 per cent growth rate the foreign capital needed will be much higher than the \$10 billion needed annually to attain a 5,5 per cent growth rate.¹⁾

During the transformation period the transitional (or a truly democratic government) will continuously be confronted by the extremely difficult choice between economic growth and redistribution on behalf of greater social justice and legitimacy. While the need for the latter cannot easily be overemphasised after nearly a century of apartheid, the experience of not only developing, but also highly developed and industrialised countries shows that a sharp increase in social spending and attempts to maintain a relatively high level of government-sponsored social services - i.e. high relative to the stage of economic development and/or income levels - can easily overstrain the tax capacity of

1) See Terreblanche, op.cit., pp 12 - 13.

the economy and cause a 'fiscal crisis' which will have a negative effect on the growth of the economy. If this kind of fiscal overload should be experienced during the transformation period it is preferable that the political transition towards a true and non-racial democracy should not take place all at once or in too short a time, but that it should be phased in according to processes agreed upon during the negotiation and/or in accordance with the tax capacity of the economy. If sound reasons for the completion of the political transition in a relatively short time do exist, it would be wise to entrench fiscal constraints in the constitution to protect the economy against the dangers of fiscal "overload".

The democratisation of the public sector during the transformation period should also include steps to redress the racial exclusiveness of the public sector, especially the senior positions. According to Pierre Hugo, given the "consistency with which successive South African governments have passed racially exclusive legislation encompassing most facets of societal activity, the de jure non-discriminatory legislation pertaining to the employment in the public service presents a curious anomaly". Although Section 11(3) of the Public Services Act of 1957 stipulates "a number of non-racial attributes... which should be applied in making appointments and promotions... (the) reality (is) every bit as racially exclusive as in the field of industrial employment, in fact, more so". 1)

A government-sponsored equal-opportunity policy would of course not be adequate to redress the unfortunate and unjust system that has developed in public sector employment. It would also be necessary to create special opportunities for people other than whites via an affirmative action policy. This implies that large numbers of white people in public service will have to be "phased-out" into the private sector, or they will have to be content with the prospect that almost no promotion possibilities will exist for them. Any policy to bring about a satisfactory "Africanisation" of the public sector at the expense of the white population can succeed without undermining the social stability only during a high growth period when enough lucrative job opportunities are created in the private sector to absorb those white people

1) Hugo, P. 1989. Institutional legitimacy and equity: The case of blacks in the South African public service. Development Southern Africa 6(2).

who will have to leave the public service. However, the inadequate educational system for black people and their lack of experience makes it difficult to find sufficient numbers with the necessary skills and experience for employment and promotion in the public service.

7. A SIXTH FUNCTION: TO OPERATE AS ENTREPRENEUR AND TO FUNCTION AS A DEVELOPMENTAL STATE

Due to the popularity of the freemarketeers and economic liberalism enjoyed lately and because of the hostility against the apartheid-oriented NP-government, the role the government as an Entrepreneurial or Developmental State should play to bring about adequate economic development and industrialisation in a typical "latecomer" country like South Africa, has been very much neglected to our own peril. The ANC's policy on nationalisation has also complicated this debate and shifted the focus away from the role the government ought to play as a "developer". Alice Amsdin and Takasi Hinko explains the role of the Entrepreneurial or Developmental State in developing countries as follows:

"Standard price theory predicts that latecomers develop by "getting the prices right" and typically using low wages to gain a comparative advantage in labour-intensive industries. But no major late industrializing country has successfully followed this route in the 20th century. Alexander Gerschenkron, conceives catching up as a process of "revolutionary", "eruptive" spurts, with the most backward countries promoting "those branches of industrial activities in which recent technological progress has been particularly rapid. A necessary condition to industrialize in the 20th century is government intervention. Given the inadequacy of low wages and the absence of pioneering products and processes, governments must intervene and distort prices to get them "wrong" rather than right, and to monitor subsidy recipients to insure that productivity and not just profitability rises. The need for such intervention is greater in industries where the competitive asset bundle of advanced economies is greater. Even in the classic case of the First Industrial Revolution in England, government intervention did not take the pure form of laissez-faire. Governments were actively involved in developing transportation, communications, and all sorts of education as well as stable banking systems and legal and administrative frameworks generally. Intervention increased over time to the extent that tariff protection to infant industries became widespread, for a host of reasons related to revenue, politics, as well as economic development.

Developmental states in the 20th century did all this but much more... Governments had to subsidize business more because without pioneering technology, late industrializers had fewer assets with which to compete. Governments also could and did intervene more institutionally because the roadmap or earlier industrializations already existed. The promising industries to promote were projected in five-year indicative plans....."

This kind of developmental strategy and the intervention of the government as a Developmental State will in all probability be necessary in the New South Africa.

8. A SEVENTH GOVERNMENT FUNCTION: WIRTSCHAFTSORDNUNGSPOLITIK

The government has the responsibility to create the broad framework for economic activity and must "adjust" this framework from time to time. The government has undeniable responsibility as far as the "economic system" or "economic order" is concerned. In this connection the German word put this responsibility better than English or Afrikaans equivalents: Wirtschaftsordnungspolitik.

Every (democratic) government has not only the right but also a responsibility towards Wirtschaftsordnungspolitik. It must "restructure" the economic framework in an attempt to improve the overall functionality or effectiveness of the "system" or "ordnung" to enhance the Social Welfare as it is defined by the (democratic) government in accordance with its own socio-economic philosophy. We discussed the problems surrendering a clear conception of what the Social Welfare of South Africa is or ought to be in the previous section. We came to the conclusion that it would take time and appropriate political institutions to give a proper definition to Social Welfare.

The New South Africa will hopefully aim for a system of Democratic Capitalism - or, for that matter - for a Capitalistic system with a strong "leaning" towards Social Democracy and an appropriate Developmental State policy. Before a proper Wirtschaftsordnungspolitik can be implemented, the new government should have a clear conception of the Social Welfare that ought to be aimed at in the new political and economic system. Given this precondition and all kinds of structural rigidities built into the present economic system and given the dangers of harmful dislocations of a too rapid "restructuring", it will be wise if the new government proceeds with caution in implementing its Wirtschaftsordnungspolitik. Consequently, we want to argue the new government to implement this policy with gradualism.

EXTRACT FROM

PROFESSOR S. VAN DER BERG'S PAPER ON 'REDIRECTING GOVERNMENT EXPENDITURE'

Reallocating existing social expenditures to achieve social spending parity is also a fundamental redistributive measure. It would have required reducing state resources allocated to whites by almost R3 billion in 1986/7, with an equivalent increase in financial resources devoted to blacks. Even if whites retained the same level of services by paying more for these services, the redistributive impact would have been similar, for that would have been equivalent to a tax of similar magnitude.

TABLE 5: GOVERNMENT SOCIAL SPENDING, 1986/7: ACTUAL AND PARITY REQUIREMENTS (in billion Rand)

	White Coloured	Indian	Black	Total
TOTAL SOCIAL SPENDING (in billions of Rand):	R4,3b	R1,7b	R0,5b	R5,4b
Actual spending	R4,3b	R1,7b	R0,5b	R5,4b
Parity spending:				
If white standards were the norm	R4,3b	R3,5b	R0,9b	R25,5b
Within existing overall social spending constraints	R1,5	R1,2b	R0,3b	R8,9b
				R11,9b

POPULATION	4 892	3 013	914	25 178	32 997
PER CAPITA SOCIAL SPENDING (Rand):	R879	R564	R547	R214	R361
Actual spending	R879	R564	R547	R214	R361

Parity spending:
 If white standards were the norm
 R879 R1 162 R985 R1 013 R1 036
 Within existing overall social spending constraints
 R307 R398 R328 R353 R361

Notes: * Social spending in this table includes only primary and secondary education, health, and social pensions.
 * The differences in per capita spending requirements for parity to be reached arise partly from the differential age structure that determines the clientele for social pensions and education, and partly from income differences causing fewer whites to require social pensions.
 Source: Social spending figures based on data from Race Relations Survey, 1988 (cf. Van der Berg, 1989); population data based on Simkins, 1990.

In South Africa the budgetary shortfall in meeting social needs common to developing countries has been exacerbated by apartheid policies that allowed white standards to be raised to unrealistic levels for a middle income country, thereby raising expectations of all groups. The dilemma is now how to move towards parity. Four alternatives suggest themselves:
 (i) Devoting a greater share of public spending to social spending;

(ii)

(ii) reducing spending on whites;
 (iii) dampening expectations of all South Africans to levels commensurate with the country's resources as a developing country rather than with present white benefits; and
 (iv) reconsidering methods of providing services to ensure that the most cost-effective delivery methods are used.

As will be shown in section 4 below, there is some scope for the first of the four options mentioned above of further increasing social spending at the expense of other public spending programmes, but this scope is less than is often thought. South African social expenditure ratios are not greatly out of line with other countries at comparable levels of economic development. (Table 6) There is obviously a need for savings (as in the fourth option above) through restructuring the social service system itself, reducing duplication and increasing capacity utilization. But the bulk of social expenditure cannot be avoided: social pensions, teacher salaries, medical personnel and equipment, etc. The real challenge is thus to adjust expectations of whites (and of other groups) downwards to a level commensurate with South Africa's resources as a developing country and to restructure social expenditure accordingly.

Once political apartheid is abolished, major changes are required to abolish fiscal apartheid, but this would have to take place within the constraints of limited additional resources for social spending. It is disturbing, yet perhaps symptomatic of our politics, that politicians on both sides of the present racial divide conspicuously avoid publicly admitting that the effect of democratization and the resultant need for horizontal fiscal justice (a more appropriate norm than parity in that allows for the greater needs of the poor) would have to be a drastic reduction in social expenditures benefiting whites.

TABLE 6 - PROPORTION OF NATIONAL PRODUCT DEVOTED TO VARIOUS PURPOSES, 1986

	PROPORTION OF NATIONAL PRODUCT DEVOTED TO:		
	Defence	Education	Health
Lower middle income developing countries			
Average	3,74%	3,61%	1,00%
Highest	12,28% (Jordan)	8,74% (Botswana)	5,65% (Costa Rica)
Upper middle income developing countries			
Average	2,92%	2,89%	1,44%
Highest	26,48% (Oman)	6,38% (Oman)	5,14% (Panama)
South Africa	3,9%**	5,6%**	3,0%**

* Expressed as proportion of GDP at market prices (R145,9 billion in 1986).

Sources: World Development Report 1988; Galitz 1989, Table 2, p.16.

(iii)

The results of a previous attempt (Van der Berg, 1989) at providing order of magnitude figures of the effect on social expenditure in four important and costly fields - (primary and secondary) education, social pensions, health, and housing - if racial disparities were to be eliminated and housing needs addressed are summarized in Table 7. Social spending in these four fields would have had to increase from just under ten per cent to between 25 and 31 per cent of GDP, or from less than R14 billion to more than R44 billion in 1986. This is clearly not attainable, even if it were possible to sharply reduce other public expenditure to far below the 17,9 per cent prevailing in 1986. Note that education is by far the most expensive item of the four, especially once parity is introduced at white levels. This is a consequence not only of the great educational needs, but also of the greater discrimination in education than in other fields, and the very expensive nature of present white education.

TABLE 7: THE COSTS OF PARITY IN SOCIAL EXPENDITURE AND OF MEETING HOUSING NEEDS (in 1986 Rand and as percentage of GDP at market prices):

	Present expenditure	Conservative estimate	Liberal estimate
EDUCATION	R6 752m 4,8% of GDP	R23 986m 16,6% of GDP	R27 676m 19,2% of GDP
SOCIAL PENSIONS	R1 878m 1,3% of GDP	R3 700m 2,6% of GDP	R5 220m 3,6% of GDP
HEALTH	R4 020m 2,8% of GDP	R6 031m 4,2% of GDP	R8 021m 5,6% of GDP
HOUSING	R1 023 0,7% of GDP	R1 711m 1,2% of GDP	R3 508m 2,4% of GDP
TOTAL SOCIAL EXPENDITURE	R13 673m 9,5% of GDP	R35 428m 24,5% of GDP	R44 425m 30,8% of GDP
OTHER GOVT. EXPENDITURE	17,9% of GDP	17,9% of GDP*	17,9% of GDP*
TOTAL GOVT. EXPENDITURE	27,4% of GDP	42,4% of GDP*	48,7% of GDP*

* On the assumption that other (non-social) government expenditure remains unchanged at 17,9 per cent of 1986 GDP at market prices, valued at R145,9 billion. (In Van der Berg, 1989 these proportions were inadvertently shown relative to GDP at factor cost.)

Note that the proportions of GDP do not always add up, due to rounding.
 Source: For calculations, cf. Van der Berg, 1989.