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Before I can address the possible economic future of South Africa in the post-apartheid period, it is necessary to focus on some of the structural distortions and other unhealthy features of the South African economy at present.

The main features of the South African economy can be summarised in terms of the following three phenomena:

- (i) structural inequality in the distribution of income and power;
- (ii) chronic stagflation and widespread poverty and underemployment; and
- (iii) a growing dependency on foreign investment and foreign support.

1. Structural Inequalities

To simplify the rather comprehensive problem of racial inequalities in South Africa, we can reduce the inequalities to two main categories: firstly, the (structural) inequality in the distribution of "Power, Property and Control" and, secondly, the unequal "Opportunities, Income and Consumption" available to the different racial groups. Although the two categories are mutually related, the first category has a more structural (or long term) nature and it

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will be much more difficult to address the inequalities in this category than to address the inequalities in opportunities and income available to the different statutory groups.

The sharp inequalities in South Africa are often described and characterized as the 'inequalities of apartheid'. This is an oversimplification. Many reasons of an historical, cultural and demographic nature can be furnished for many of these inequalities and even for its close correlation with the four racially defined population groups. But it cannot - and it should not - be denied that the structures and policies of colonialism and apartheid has created and maintained, over a period of at least 120 years, social, economic and political conditions that were exceptionally favourable for mainly the whites and unnecessarily unfavourable and even exploitative for the rest of the population. Although the structures and policies of colonialism and apartheid cannot be blamed for all the inequalities, a large (albeit indeterminable) part of these inequalities can - and should - be blamed on the social, economic and political structures created in the period of colonialism and apartheid.

(a) The inequality in the distribution of property, power and control

As part and parcel of the apartheid system, the inequality of 'property, power and control' have an uniquely South African character. It is estimated that 88 per cent of all personal wealth is owned by the top 5 per cent of the population. Due to the Land Acts of 1913 and 1936 it was (until recently) not possible for blacks to own land (small exceptions aside) in 87 per cent of the South African territory. As far as power is concerned, the political and economic power and control are very much concentrated in the hands of the white group. During the Election of 1989 only 6,3 per cent of the potential electorate voted for the NP and put the 'executive power' in the hands of the present

(non-representative) government. Almost all the employees in the top echelon of the public administration are Afrikaansspeaking whites and ideologically strong orientated towards the NP. As far as economic power and control are concerned, less than 10 'corporate conglomerates' control more than 80 per cent of the value of the stocks quoted on the Johannesburg Stock Exchange. 'Media power' is concentrated in the hands of the SABC and the three largest newspaper groups.

It is, however, important to realise that 'power' is not only concentrated in the four 'centres' represented by the government, the bureaucracy, the corporate sector and the media. Over the last 20 years a rapprochement came about between these four centres of power and (especially during the last two years) an informal but rather solid 'compact of power' has been formed between them. The mainly White Bourgeois Establishment (WBE) is based on this 'compact of power'.

In the 20th century world it is no longer adequate to regard only tangible objects as 'property'. Property is not, as is commonly believed, an object or a credit instrument. If we define property in its wider meaning of 'power over resources' we should also include professionally trained people as 'property'. Since the essence of property is the right to (some portion of) the flow of income from resources, the professional 'capital' - especially well-trained and statutory organised professionals - must be regarded as a very important (and powerful) part of the 'resources' and the property of a nation. In South Africa more than 90 per cent of the Whites are employed in skilled occupations, while 14 per cent of the Blacks are occupied in skilled occupations. In the case of professionals - widely defined to include not only statutory professionals but all other professionals - 'professional capital and power' is also exceptionally unequally distributed. This adds a very important dimension to the inequality in the distribution of power, property and control.

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The role played by the professionals in the 'compact of power' must not be underestimated. During the fifties and sixties when the Afrikaner and English Establishment were at loggerheads with one another, the public and private sector professionals were propagating opposite or rival 'social ideals'. The public sector professionals were in favour of state interventions mainly to promote the 'group' or 'cultural' interest of the Afrikaner 'volk' or people. Unfortunately the typical public sector ideal of an equalitarian, caring and compassionate state, run by well-paid professionals, was mainly restricted to the upliftment and the embourgeoisment of the Afrikaners. Due to the apartheid system the (mainly Afrikaans speaking) public sector professionals were mainly concerned with the 'public interest' of their (Afrikaner) volk. The (mainly English speaking) private sector professionals were in favour of the free market and made a plea for equal opportunities for those able to climb the corporate ladder of success and able to compete in the relentless struggle for survival. In the struggle for hegemony between the Afrikaner and English Establishment during the 1950s, 1960s and 1970s, the interests of the people, other than white, was either neglected or exploited to promote the interests of the Whites.

It is rather sad that the relentless power struggle that took place (from say 1950 to + 1970) between the two White establishments was an important cause of the deprivation and impoverishment of the other population groups. The animosity between the Afrikaner and English Establishments was in these two decades, not only a struggle for political and economic hegemony, but also an ideological struggle between the 'social ideals' of typical public and private sector professionals. But due to the 'rapprochement' between the Afrikaner and English Establishments (and the 'compact of power' that came about), the (mainly English speaking) private sector professionals succeeded in convincing the public sector (and mainly Afrikaansspeaking)

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professionals about the (alleged) merits of the freemarket ideology. In its attack against the apartheid policy, the private sector professionals (and its supporting media) succeeded in bringing the 'restricted' social ideal of the (Afrikaansspeaking) public sector professionals in discredit. Consequently the 'compact of power' today represents not only a formidable 'concentration' of political, bureaucratic, capitalistic and media power, but also a unifying ideology - the ideology propagated by professionals in both the private and public sector has become a rather extreme version of the freemarket ideology.

The White Bourgeois Establishment has a strong vested interest to perpetuate its power base as intact as possible into the post-apartheid South Africa. It is strongly orientated towards the maintenance of its strong bourgeois ideology - a bourgeois ideology with a conspicuous nouveau riches undertone. This Establishment tries to justify - and will continue to try to justify -- its position of power and privileges on its reputed experience and efficiency, and on its real and potential contribution to economic growth with selfrighteousness and arrogance. To be able to maintain its position of power and privileges as intact as possible, this White Bourgeois Establishment will resist strongly and relentlessly almost every attempt towards 'restructuring'; towards the unravelling of the 'compact of power', and towards the redistribution of power, property and wealth. The capability of the Establishment - and of each of its four constitutive parts - to resist 'restructuring', unravelling and redistributive measures and to propagate their case for an unbridled freemarket economy in (seemingly) convincing ideological and 'value' arguments should not be underestimated.

The argument of the W.B.S. that restructuring measures with unnecessary disruptive effects should be avoided, have merit. But it is nonetheless important to realise that the restructuring of property and power relations cannot be evaded (en route) towards a New South Africa. Although all

the power relations cannot be changed over the short period without disruptive effects, we will never 'arrive' in a democratic and post-apartheid South Africa if the power relations are perpetuated intact into the future.

(b) The unequal distribution of opportunities and income

The unequal distribution of opportunities, income and consumption available for the different population groups is a matter that needs immediate attention. If we put the per capita personal income of the Whites on an index of 100, the per capita personal income of the Asians, Coloureds and Blacks is at present 35, 25 and 12. The Gini-coefficient for South Africa is estimated to be 0,68. It is the largest of all countries for which this kind of coefficient has been estimated. The distribution of income is therefore more unequal than in other countries for which the Gini-coefficient has been estimated.

The most important 'inequality' from a political point of view, is the inequality in the government's social spending on education, housing, health, social security and welfare services. In the 1991/92 Budget R32 billion was allocated for Social Spending. The government does not supply us with hard statistics about how these spendings are allocated between Whites, Coloureds and Indians (taken together) and Blacks. According to a rough estimate + R11 billion will be spent on the 5 million Whites, + R16 billion on the 29 million Blacks and + R5 billion on the 4 million Coloureds and Indians. The per capita spending on each group is then R2 200 on Whites, R560 on Blacks and R1 250 on Coloureds and Indians.

My colleague, Prof. Servaas van der Berg, recently made an estimate of the effect a 4 per cent economic growth rate (from 1991 until 2000) will have on the interracial income distribution without and with complementary redistributive measures through the Budget. Table 1 shows that a 4 per cent growth rate will increase the Black share in the

TABLE 1

INTERRACIAL INCOME DISTRIBUTION

	White	Coloured	Indian	Black	Total
Personal income (R-1990 bill)	93,6	15,0	6,3	62,9	178
4% growth p.a. = R-2000 bill	117,2	23,0	9,2	113,4	263
Distribution of pers.income(1990)	52,6%	8,4%	3,6%	35,4%	100%
Distribution of pers.income(2000) after 4% growth	44,6%	8,8%	3,5%	43,1%	100%
Per Capita income ratios (% of White levels)					
1990	100	24,8	35,1	11,9	
2000 (4% growth)	100	28,5	38,0	14,1	

(Van der Berg, 1991)

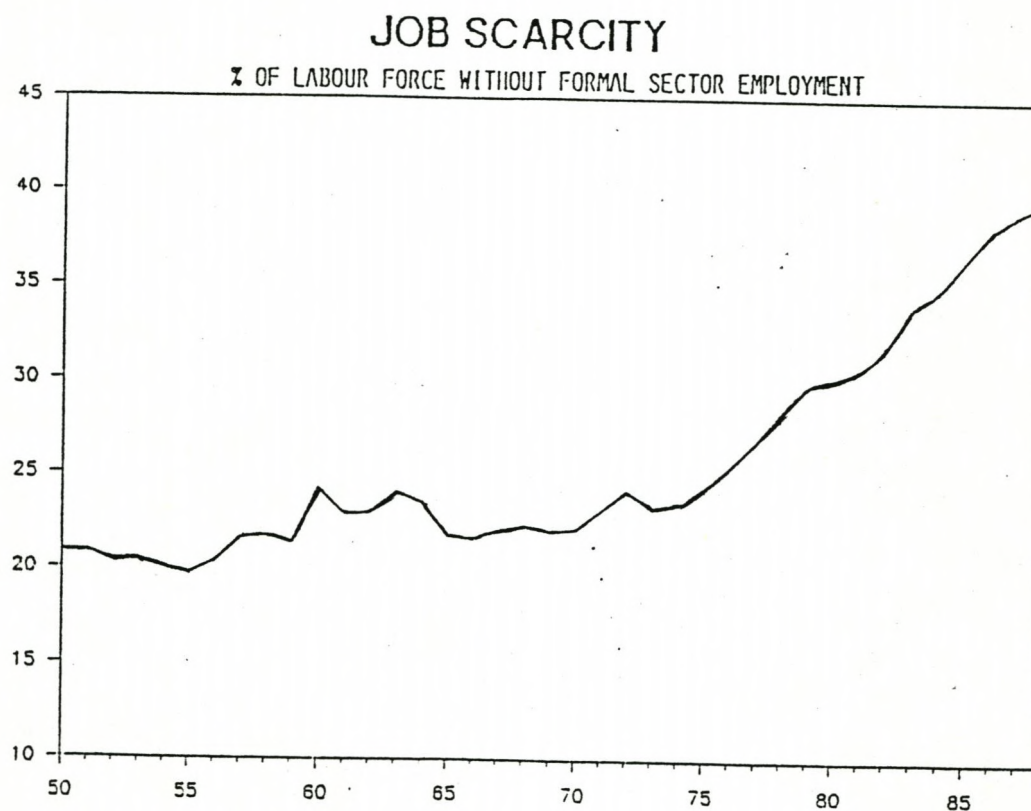


FIGURE 1.3

distribution of personal income from 35,4 per cent in 1990 to 43,1 per cent in 2000. The per capita income ratio between whites and blacks will improve from 100:11,9 to 10:14,1. If however, Social Spending can be increased from its present level of 12 per cent to 15 per cent of GDP and all the additional Social Spending - partly because of the growth rate of 4 per cent and partly because of the increase of social spending to 15% of GDP - can be spent on blacks, their per capita personal income plus social spending will increase to become 17 per cent of those of whites in 2000.

But how realistic is this scenario? It will not be easy to attain and to maintain a 4 per cent growth rate in the 1990s. To accomplish this we need an annual influx of \$7 billion in foreign investment (see below). It will also not be easy to increase Social Spending to 15 per cent of GDP and to allocate all the additional spending towards blacks. Although the assumption of the scenario is rather tough, it is not unattainable. But then we must normalise our international relations as soon as possible and maintain conditions attractive enough to invite \$7 billion foreign investment annually.

2. Chronic stagflation, job scarcity and poverty

The South African economy performed exceptionally well in the forty years from 1933 until 1973. The average growth rate during South Africa's 'golden period' was almost 5 per cent annually and the real per capita income increased with almost 2,5 per cent per annum. Unfortunately the benefits of the 'golden period' were not spread equally between the four population groups. It is one of the tragedies of the South African history that during the only period when the growth rate was high enough to end the 'zerosum-game' and the 'intergroup plundering' that have become - over its modern history of 300 years - endemic to South Africa's society.

For an uninterrupted period of four decades the growth rate was high enough to end the zerosum-game but the

opportunities was blown. It was mainly the whites (and especially the Afrikaners) that benefitted the most during that period and to a lesser extent also the upper half of the Coloureds and Indians, while the Blacks' position may even have deteriorated.

Overall economic performance as measured in terms of real economic growth, employment and inflation during the post-war period may be divided into two sharply contrasting periods: the period up to the early 1970s (characterised by a generally very satisfactory performance), and the period from the early 1970s to the present (characterised by a very poor performance). (Smit, 1990. See also his figures 1.1, 1.2.)

During the period 1947 to 1974 the average annual increase in real GDP was 4,9 per cent, whereas the comparable figure for the period 1975 to 1988 amounted to only 1,9 per cent. The intra-period growth rates were, however, not uniform. The earlier period reflects growth rates of 4,5 per cent during 1947-1959, and 5,6 per cent during 1960-1971 (our golden economic years); the second period may be divided into 1975-1981 (2,9 per cent growth), which includes the gold price boom, and 1982-1988 (1,1 per cent growth).

Employment in the formal sector (figure 1,2) reflects, as may be expected, a similar pattern: 2,6 per cent growth in the period 1947-1974 followed by 1,0 per cent growth in the 1975-1988 period. But the best measure of the deterioration of South Africa's economic performance is, perhaps, the statistics on job scarcity (figure 1.3.). After having managed to provide formal sector jobs for most of the new entrants into the labour market for the whole period up to the early 1970s, the economy has simply lost this capability.

Because of the apartheid structures and policies and because of the low growth rate since 1974, a very large

REAL GROWTH RATE

% CHANGE IN GDP AT CONSTANT PRICES (5 PER. MOV. AVE.)

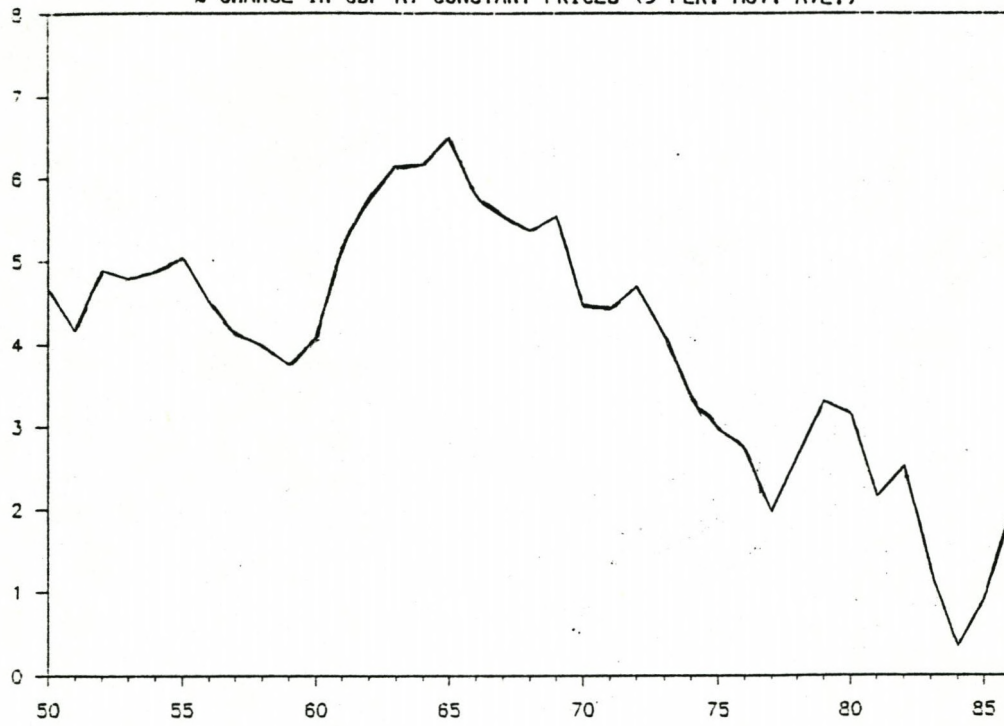


FIGURE 1.1

EMPLOYMENT

% CHANGE IN FORMAL SECTOR EMPLOYMENT (5 PER. MOV. AVE.)

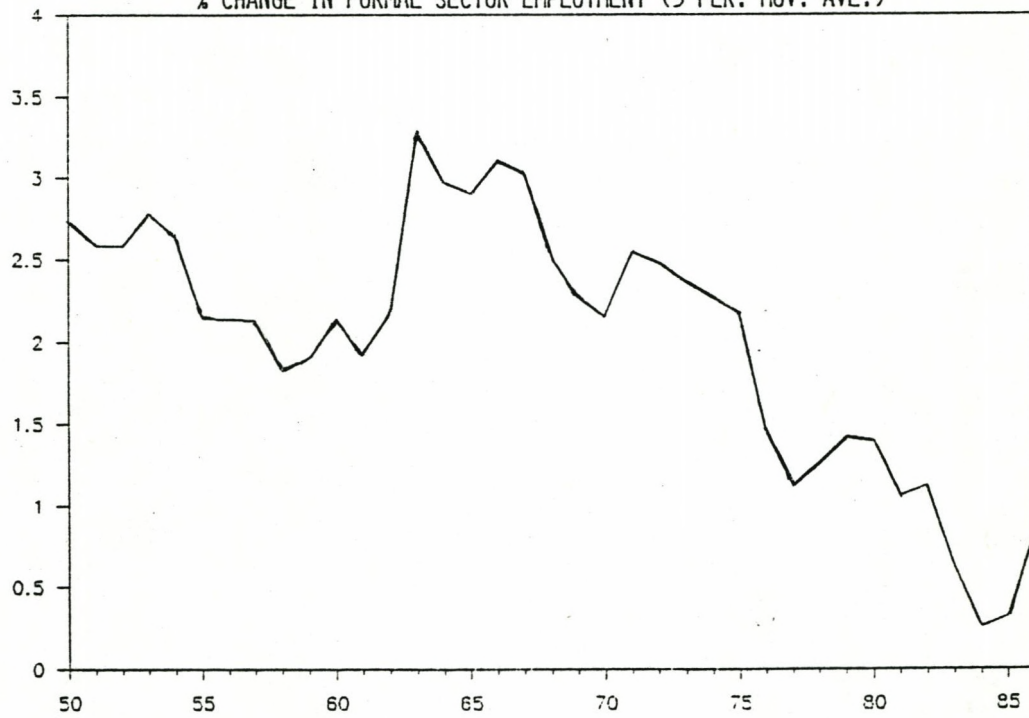


FIGURE 1.2

percentage of the population are presently living in poverty.

It is estimated that 42 per cent of the South African households are living in poverty, i.e. they are living below the Minimum Living Level which is described as the minimum income required for subsistence in the short-term. In total numbers the people living in poverty (as opposed to households) have increased from 15,5 million in 1985 to 17,1 million in 1990. If an annual growth rate of 2,5 per cent could be maintained until 1995, the total number would still increase to 18,4 million in 1995 or (in all probability) to more than 20 million if a lower growth rate is maintained.

The incidence of poverty is enormous among rural black communities. In 1985 no less than 84 per cent of the households in the homelands were living in poverty. It has declined to 82,6 per cent in 1990. (Statistics from Simkins' Urban Foundation Survey as quoted by the Sunday Times, September 22, 1991).

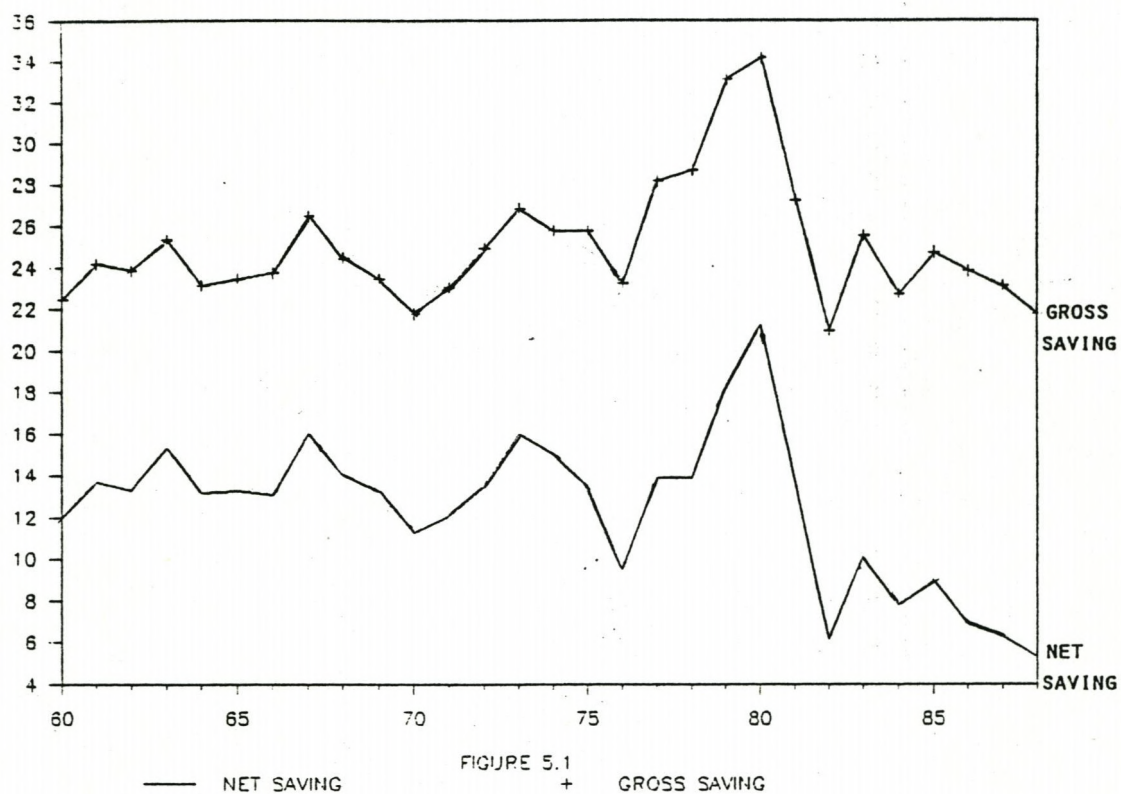
A remarkable correlation exists between the statistics on 'job scarcity' and the statistics on households living in poverty. 'Job scarcity' or the percentage of the labour force without formal sector employment increased from 22 per cent in 1950 to almost 25 per cent in 1972 and to 42 per cent in 1990. (See figure 1.3.) More or less 20 per cent of the labour force finds employment in the informal sector and in some cases it may be very lucrative. In spite of this nobody can deny the remarkable correlation between the more than 40 per cent of the labour force that cannot obtain formal sector employment and the more than 40 per cent of households living in poverty. The sharp increase in the percentage of households living in poverty and in the percentage of 'job scarcity' is not only a function of the low rate of economic growth since the early seventies. The low growth of employment in the formal sector is also the result of the considerable capital deepening that has taken place in the South African economy. The fixed capital stock

per formal sector labourer has increased from + R16 000 in 1950 to + R48 000 in 1990 (figure 4.3). As we will show below, this considerable capital deepening has not only weakened the employment creating capacity of the economy, but also increased the economy's dependency on foreign investment.

The sharp increase in the capital/labour relation is partly the result of technological developments (in especially Western countries) but to a large extent also the result of the Verwoerdian policy of creating a 'white' South Africa independent of Black labour. As part of this policy the exchange rate was kept deliberately at a too high level in the 1960s and 1970s (to keep the import of capital goods cheap), the rate of interest was also kept at a very low (and sometimes negative) level to enhance investment, while tax concessions were granted on investment. At the same time not enough was spent on education - especially black education. Consequently the relative prices of labour and capital did not reflect the true scarcity values of these factors and it caused a very unhealthy capital deepening and an overall 'skew' development of the modern sector of the South African economy.

It is important to realise that a very large part of the households living in poverty and a large part of those that cannot attain formal sector employment are blacks. For all practical purposes the black population can be divided into almost equal halves, i.e. the 'Insiders' and the 'Outsiders'. The 'Insiders' are, broadly spoken, those belonging to households with incomes above the Minimum Living Levels and with formal sector employment. The Outsiders are those living in poverty and without formal sector employment and usually also without houses and without adequate health services. The 'Insiders' and 'Outsiders' socio-economic position has been differently affected by the poor economic performance during the last almost 20 years. Since the early seventies the real per capita income has declined by almost one per cent annually.

GROSS + NET DOMESTIC SAVING AS % OF GDP



CAPITAL PER LABOURER

FIX CAPIT STOCK PER FORMAL SEC LABOURER

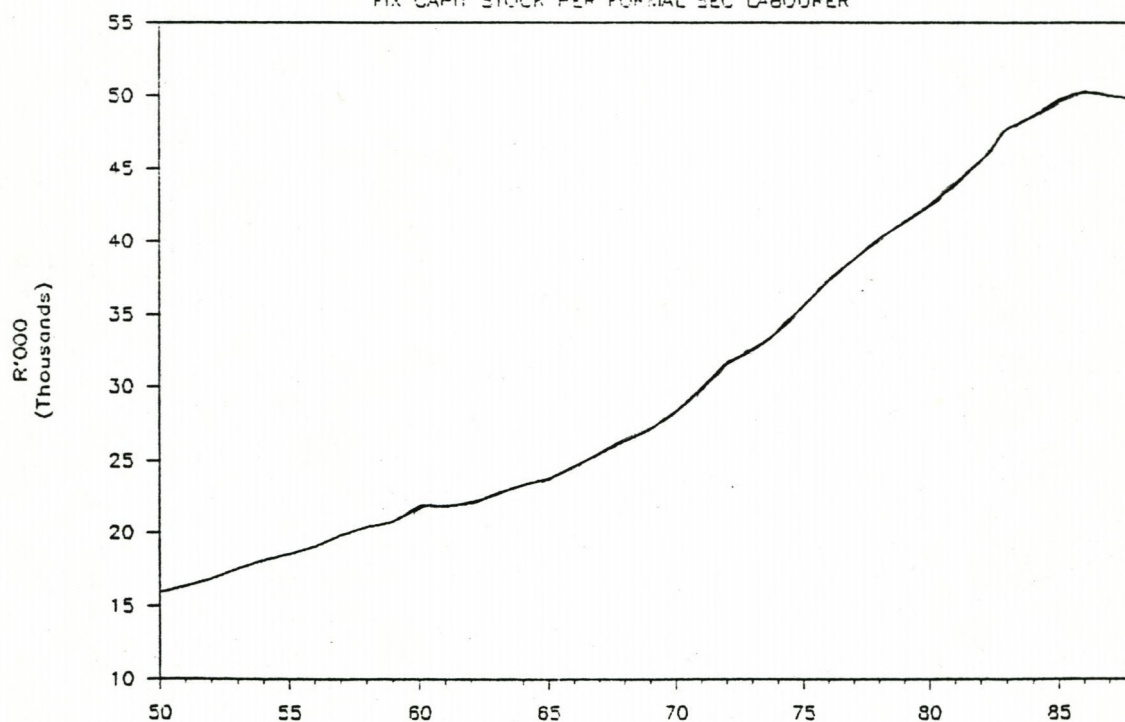


FIGURE 4.3

In this period the real per capita income of the Insiders has improved considerably due to the rather sharp increase of black wages since 1973. The real income of the Outsiders has, however, decreased by more than one per cent annually. Given the power structures in the society at large - and the lack of organisation in the ranks of the Outsiders - a relatively large part of the 'creeping poverty' of the last two decades have - so to speak - been 'shifted' onto the Outsiders.

The poverty problem in South Africa has become the problem of black (widely defined) Outsiders. They have become a 'forgotten' and 'frozen' 40 per cent. They are not only economically 'outsiders', but they are more or less 'doomed' to remain social 'outsiders' and perhaps also political 'outsiders'. The sharp divide in black circles between the lower middle class (or petit bourgeois) Insiders and the 'frozen in poverty' Outsiders may have very important political ramifications in the years ahead - even if a non-racial democratic South Africa with a reasonable rate of economic growth can be attained.

3. South Africa's growing dependency on foreign investment

My colleague, Prof. Ben Smit, analysed in two recent articles the foreign capital flows and its effects on the growth performance of the South African economy. (Smit and Mocke, 1991, and Smit 1991). Foreign capital has contributed materially to the development of the South African economy ever since the discovery of diamonds and gold in the second half of the nineteenth century. Foreign investment in the mining industry was originally very large. In 1918 the proportion of mining dividends paid abroad was approximately 80 per cent. In the period since the second world war foreign investment played quite an important role. A net foreign investment inflow was registered in 24 of the first 31 years up to 1976. Table 2 (Smit, 1991, p. 7) gives a clear indication of the influence foreign capital flows

exerted on South Africa's macro-economic performance in the period after the Second World War.

TABLE 2

FOREIGN CAPITAL FLOWS AND ECONOMIC PERFORMANCE

	Foreign financing of Gross Domestic Investment (average %)	Real Gross Domestic Product (average annual % change)	Real Gross Domestic Fixed Invest- ment (average annual % change)
1946-76	13,5	4,6	6,5
1977-84	3,3	2,7	1,5
1985-90	-12,7	1,0	-2,9

Source: Smit, B.W., 1991.

During the period when a growth rate of 4,6 per cent was maintained, 13,5 per cent of Gross Domestic Investment was financed by foreign investment. When foreign investment started to decline after 1976, the growth rate declined to 2,7 per cent. Due to the large-scale disinvestment since 1985, the growth rate declined to only 1 per cent and real Gross Domestic fixed investment declined by -2,9 per cent annually in the period 1985-1990.

Any attempt to determine the 'capital flight' from South Africa since 1970 encounters difficult statistical problems. Smit and Mocke used mainly IMF statistics in their estimate of capital flight. According to their estimate the outflow of capital since 1970 may be as high as \$23 billion. It was unfortunately not possible to determine what proportion of the outflows actually represents capital flight in the sense of capital 'fleeing' from abnormal domestic risks. (See Smit & Mocke, 1991, p. 106.)

The close correlation between the outflow of foreign investment and the poor economic performance of the South African economy indicates that South Africa has become 'trapped' in a kind of 'vicious circle'. The outflow of

foreign investment due to political considerations causes a lower growth rate and the lower growth rate is in its turn responsible for a poor perception of the future growth capacity of the economy. The resulting 'creeping poverty' is one of the causes of political instability and of the chronic violence. These developments make South Africa a less attractive investment field. What will it take to turn this 'vicious circle' into a 'virtuous circle'? This question should be on our minds every day. Probably nothing less than a political settlement will be needed to turn the tide.

Another factor that has increased South Africa's dependency on foreign investment is the sharp drop in real net domestic savings. (See figure 5.1). During the period 1960 to 1978 net savings expressed as a percentage of GDP was fairly stable. It fluctuated at an average level of 13,5 per cent. During the period 1982-1988 it declined to the low level of 7,5 per cent.

Prof. Ben Smit estimated that with a capital/output ratio of 3,2 per cent and a savings ratio of 6,8 per cent, South Africa needs \$11 billion dollars annually from 1991 to 2000 to attain an average growth rate of 5 per cent. If net savings can be increased to 12,6 per cent of GDP (as has been the case earlier) only \$4,1 billion foreign investment will be needed to attain a 5 per cent growth rate. It is however unlikely to increase savings to that level.

Will it be possible to invite the needed amounts of foreign capital to South Africa? We should take note of the fact that we are presently living in an 'investment scarce' world. The USA has become a debt country and continues to borrow more from other countries than lending to them. The countries in Eastern Europe and especially the Soviet Union need billions and billions of dollars of foreign investment. The countries in Western Europe - and especially Germany - are inclined to canalise their foreign investment in an eastward direction. What about Japan? Perhaps.

4. South Africa's economic future

Even if the political transition towards a non-racial and democratic post-apartheid South Africa can take place relatively smoothly, the new democratic governments will - in (say) the first two decades of the New South Africa - have a formidable task to rebuild, to restructure and to democratise the South African economy. It should be done in an attempt to change the present rather disfunctional 'capitalist' system, into a more functional one that will promote the Social Welfare of the total population. The economic challenge of the future can be reduced to the following three main tasks:

(a) we must succeed in moving the economy onto a higher growth path and to maintain it at that higher growth path;

(b) we must succeed in bringing about greater equity and fairness in the distribution of income and opportunities; and

(c) we must implement - at least over the long run - 'restructuring' measures to bring about a fairer or more equitable distribution of 'property, power and control', and in doing this change the market-orientated economic system in ways that will render it more functional for the promotion of the social welfare of the total population.

(a) A higher growth rate

As indicated above, we will only succeed to move the economy onto a higher growth path, of say 5% annually, if we can invite \$11 billion annually or to 4 percent if we can invite \$7 billion. To create conditions that will be stable and attractive enough to invite this amount of foreign investment, it will first of all be necessary to reach agreement about a 'fair' and 'equitable' constitutional dispensation.

I am not going to address the question of what a 'fair' and/or 'equitable' constitutional dispensation will be. It is however important to realise that the struggle for power between the White Bourgeois Establishment and the Liberationists has got locked into a stalemate situation with negative consequences for social stability and economic growth. Both the Establishment and the Liberationists must take full responsibility for their own contribution to the negative effects the struggle for wealth and power have exerted on the economy's performance. It is to no avail for the Establishment to try to blame the Liberationists for the relative economic stagnation or vice versa. The 'clinging' to undeserved wealth and power by the Establishment on the one hand, and the 'sanctioning' strategy of the Liberationists on the other hand, must both be blamed for South Africa's poor economic performance during the last decade or two. On the question of who is to be blamed for South Africa's poor economic performance, the pot cannot call the kettle black.

As long as almost all the effective (or operational) power remains concentrated and monopolised in the hands of the Establishment - and in the hands of the four constitutive parts in the 'compact of power' - it seems reasonable to expect that the Establishment should shoulder the greatest part of the responsibility and should take the initiative for ending the stalemate situation. It is of strategic importance that the establishment should realise that if it is not prepared to sacrifice, in the immediate future, a 'fair' share of the power - in all four the constitutive centres in the 'compact of power' - that has become concentrated (for too long and in a rather undemocratic manner) in its hands, then it will not be possible to create conditions stable and attractive enough to invite the necessary foreign investment. Without such sacrifices it will also not be possible to create conditions conducive to move the economy onto a higher growth path.

To create an atmosphere that will at the same time be conducive to constitutional negotiations, to social stability and to the highly needed mutual trust, the government should immediately do something about the widespread poverty in the ranks of the Outsiders. The government should introduce a poverty relief programme (of say R10 billion annually) to compensate the worst legacies of apartheid as a clear demonstration that it realises that reform cannot succeed without visible compassion with the plight of those that suffered the most under apartheid. The symbolic value of such an acknowledgement, of such a commitment and of such a relief programme, should not be underestimated. As a concrete demonstration towards greater 'equity' and 'fairness' - and as a clear manifestation of sincerity and preparedness from the side of the Establishment to make visible sacrifices - such a policy approach can also prove to be instrumental for creating the mutual trust, the reconciliation and the stability needed to succeed with the delicate negotiations about the 'distribution of power'.

What will the economic situation be after a constitutional settlement has been reached? Even if we succeed at that stage to invite relatively large amounts of foreign investment and the economy is moved onto a higher growth rate (of say 4 per cent annually), the new (democratic) government should be very sensitive towards the conditions necessary to maintain the economy on that higher growth path. It is reasonable to expect that very high (and escalating) demands for redistribution and for poverty relief measures will be generated by the new democratic parliamentary system. Although I have very strong sympathies for such demands - as I will explain below - the new government should be brave enough to resist the (unrealistic) pressure to do 'too much too soon' as far as redistribution is concerned. Because of the large dependency of the South African economy on foreign investment, the new government must continuously go out of its way to maintain -

uninterruptedly - conditions stable and attractive enough to invite the necessary foreign investment.

I realise that the on-going dependency on foreign investment - and therefore on the attitude and the goodwill of corporate capitalism in Western countries and Japan towards the New South Africa - will not be popular in all circles and will in due time create all kinds of political tensions and frictions. But unfortunately we will remain dependent on foreign investment for quite a long period of time. In the meantime we can try to do things to decrease this dependency. We can try to lower the capital/labour ratio by introducing labour intensive technology and/or appropriate technology. Such policies should enjoy a high priority. Unfortunately, it will not be possible to attain substantial progress in lowering the capital/labour ratio in less than (say) 20 years time. We can also try to increase net savings as a percentage of GDP from its present level of + 7% to (say) at least 10%. But given the additional demands a democratic system will generate on the fiscus and on the economy, it will also not be easy to increase net savings.

It is not only the level of growth that will be important, but also the type of growth. It is of strategic importance that structural adaptation should take place in the manufacturing sector that will enable South Africa to develop a capacity to export manufactured products - and especially black labour embodied manufacturing products. It will for a variety of historical, cultural and geographical reasons not be easy for the South African manufacturing sector to improve its international competitiveness. But to attain a moderate degree of success, the trade unions will have to display a high level of discipline, patience and tolerance.

The temptation will be very high for the trade unions to use their bargaining capacity to get the best possible deals against the corporate sector. But given the high level of job scarcity and the widespread poverty in the ranks of

the Outsiders, the trade unions should take a long term view and try to play a constructive role in the rebuilding of the South African economy. While one can appreciate the role a trade union (like COSATO) is presently playing as part and parcel of the power struggle for a new constitutional dispensation, the role of Cosatu and similar trade unions will have to play in a new democratic South Africa is fundamentally different from its present role. Although it will not always be easy to adapt to their new role, it is important that trade unions should prepare themselves - already at this stage - for their new role.

To create and to maintain conditions that will over the long run be conducive to economic growth, it may be necessary for the state, the business sector and the trade unions to enter into a kind of 'corporatist' agreement. Such an agreement can (or should) come about as an extension of the constitutional agreement. While the constitutional agreement will hopefully have a more permanent character, the corporatist agreement on the economy will have to be renegotiated regularly. A 'corporatist economy' should be of such a nature that it can be instrumental to address the unequal distribution of 'property, power and control'. (See (c) below.

(b) Redistribution of income and opportunities

If the sharp inequalities in the distribution of property, opportunities and income between the racial groups were taken into account, together with the poor growth performance of the South African economy since 1974, it is axiomatic that it will only be possible to improve the living standards of all - and especially black - households over the long run if a relatively high growth can be maintained uninterruptedly for ten or more years. The 'trickle-down' effect from higher economic growth will - for quite a long period of time - be too small to attain the needed improvement in the income of the poor and the unemployed i.e. the income of the so-called Outsiders.

Even if a high growth rate can be attained, it would be necessary to complement it with redistributive measures especially in the form of increased social spending on blacks to improve their socio-economic position and in the form of poverty relief programmes aimed at the Outsiders.

According to estimates made by Servaas van der Berg we can increase the per capita primary plus secondary income (i.e. personal income plus social spending per capita) of blacks from R2 800 in 1990 to R4 000 in 2000 (1990 prices) if we can maintain an average growth rate of 4 per cent annually and if social spending (on education, health services, housing and welfare) can be increased to 15 per cent of GDP and if all the additional "social spending" is spent on blacks. The amount spent on social services for blacks alone will then be more or less 10 per cent of GDP in contrast with the 6 per cent of GDP being spent on them presently. The living standards of blacks will then still be five times smaller than those of whites. The living standards of blacks will, none the less, then be 40 per cent higher than what it is today.

I realise that an improvement in the distribution of income and opportunities of this magnitude will not be regarded as sufficient after 120 years of exploitation and deprivation in the colonial and apartheid periods. If an average growth rate of 5 per cent could be maintained annually until 2000 and if social spending could be increased to (say) 17 or 18 per cent of GDP, the redistribution effect in favour of blacks will be dramatically higher. Or, if a growth rate of 4 per cent could be maintained for 20 years and the average social spending could be increased to an average of 17 per cent of GDP per annum for the 20 years, the distribution of income in 2010 will also be dramatically better than what it is today. But to succeed with this kind of redistribution it is essential that the economy should be moved onto a higher growth path, that it should be maintained on that higher growth level, that social spending should be increased to at

least 15 per cent of GDP and that all the additional social spending should be allocated towards the blacks. But all this will only be possible if we can create socio-economic and political conditions stable and attractive enough to invite the necessary foreign investment and if we indeed succeed in inviting at least \$7 billion of foreign investment annually.

Even if a growth rate of 4 or 5 per cent can be attained, it will be advisable not to increase the amount spent on social services for blacks to more than 12 or 13 per cent of GDP. If social spending is increased to 15 per cent of GDP (on all the population groups) it will be necessary to increase the total tax burden from its present level of 25 per cent of GDP to more or less 28 per cent. Even if a growth rate of 4 per cent could be maintained, it will not be advisable - from the point of view of macro-economic balance - to increase the total tax burden in (say the next 20 years) to more than 30 or (at most) 32 per cent of GDP. To lessen the strain of such a high tax burden on a developing economy, a part of the social spending on blacks could be financed by a wealth tax on the richest 5 or 10 per cent of the population. (See below.)

Another way to improve the living standards of blacks and to bring about greater equality in the distribution of income, is to implement rather drastic redistributive measures even if the growth rate remains at a low level and the real per capita income declines - as has been the case since 1974. Such measures will then boil down to a transfer of income from whites to blacks and it will inevitably scale down the living standards of the whites quite drastically. If this kind of redistributive measures are introduced by the present white government as part and parcel of restitution and to create an atmosphere of goodwill and mutual trust needed for successful negotiations, there can be merit in it. But if a new (black) democratic government should introduce drastic redistributive measures in a rather stagnant (or declining)

economy it can have far reaching negative effects. It will in all probability have very detrimental effects on the socio-economic and political stability and weaken the ability of the economy to move onto a higher growth path quite considerably. But redistributive measures introduced by the present (white) government can create an opportunity for the present government to persuade its own constituency about the need and the merits of such a policy. Such a policy approach can make an invaluable contribution towards reconciliation. It is a pity that the present government has - up till now - not used 'redistribution' as an instrument to create conditions conducive to negotiations. There can be no doubt about the high need for redistribution measures and for poverty relief at this point of time.

(c) Restructuring the property and power relationships

In the transition towards a New South Africa one of the first things that should happen, is the 'unravelling' of the 'compact of power' on which the White Bourgeois Establishment is based. If executive and parliamentary power is effectively transferred to a new and truly democratic government, this will in effect be an 'unravelling' of the 'compact of power'. But this alone will not suffice. The mainly white power presently concentrated in the hands of the bureaucracy (including the securocracy), in the hands of the corporate sector (with its strong international linkages) and in the hands of the media should also be 'restructured' and 'democratised' - if not immediately then over a reasonable period of time.

As far as the media is concerned, it will not be too difficult to democratise the SABC. The only problem is that this democratisation should not take place after a new constitution is in place, but should happen as soon as possible to enable the SABC to make a constructive contribution towards the highly needed re-education of the public during the transitional period. The democratisation of the three mainstream newspaper groups must be seen as

part of the long term restructuring of the power relations in the private sector of the economy. It will, however, not be easy to democratise them to the necessary degree.

The restructuring and democratisation of the bureaucracy is a matter of big urgency. In spite of the popularity of the freemarket ideology in the ranks of the White Bourgeois Establishment (and in each of its four constitutive parts) there can be little doubt that the state will have to play a rather active role in the future economy even if we retain (as I hope will be the case) a market-orientated economic system. Given the disfunctionality of the existing economic system, and all the 'skewnesses' created by the apartheid system, the State will have to play a constructive and interventionist role to integrate the deprived majority into the mainstream of the economy. The State should become a 'developmental state' to play, in co-operation and in partnership with the private sector, an active role in developing the un- and underdeveloped groups of the population.

In the restructuring of the bureaucracy (or the public sector), it will be in the first place necessary to scale down the dominant role played by white Afrikaners (ideologically orientated towards the NP) and to increase the role of blacks. We need a deAfrikanerisation and an Africanerisation of the top echelon of the public sector. This kind of reform will take time. The idea of Mr. Mandela that the Commonwealth should assist in the training of public servants, is an excellent one.

A second reason why it is essential to 'reform' the public sector, is to replace the 'social ideal' of the freemarket - presently popular in the ranks of (white) public sector professionals - with a 'social ideal' that will be public sector orientated and will display the necessary sensitivity towards the welfare needs of the deprived majority. After decades of neglect and indifference by public sector professionals towards the deprived

majority, we urgently need a caring and compassionate State, run by public sector professionals that are not interested in the 'group welfare' of particular social groups and the interest of the private sector, but in the general social welfare of the society at large.

Over the long run the very unequal distribution of personal wealth will also have to be addressed. It is estimated that the top 5 per cent owns 88 per cent of all personal wealth. In the western countries the top 5 per cent owns between 35 and 55 percent of personal wealth. As a Third World country the unequal distribution of wealth cannot be compared with the distribution in Western countries. It will also not be possible to bring about an equalisation that will bring us at par with the Western countries.

On the other hand, one cannot dispute the argument that the large wealth owners accumulated their wealth during the period of colonialism and apartheid and that they should be prepared to 'repay' a part of the 'apartheid debt' in the form of a wealth tax. If a wealth tax - of say half a per cent annually - could be imposed on households with wealth in excess of (say) R250 000, it should not have an unnecessarily disruptive effect. A wealth tax of this nature can be maintained for (say) 20 years and the proceeds can be deposited in a Restitution Fund. This fund can then be used specifically to improve the position of the Outsiders. The 'sacrifice' of the richest 10 per cent will then be put to the benefit of the poorest 40 per cent. It ought not to be too difficult to persuade the super rich about the moral and economic merits of a wealth tax of this nature.

One of the most difficult challenges a democratic government will have to face - not immediately - but over the next two to three decades, is how to 'restructure' the property and power relations in the economy in an attempt to make it more 'equitable' and more 'democratic' without disrupting the growth potential of the economy. Given the

high concentration of power and control in the hands of the corporate sector - and especially in the hands of the Commanding Heights - the 'structure' of the corporate sector cannot remain as it is. For the 'restructuring' of the corporate sector, a carefully planned 'wirtschaftsordnungs-politik' is necessary. This policy should be implemented gradually and with the necessary circumspection.

But how should it be done? The ANC for the moment sticks to its policy of nationalisation. To this the White Bourgeois Establishment - and especially the corporate sector - has reacted in an hysteric way. Corporate capitalism in the large Western countries is also rather hostile towards nationalisation.

The hysteric reaction on the ANC's nationalisation policy is not justifiable. Nationalisation per se is not as bad as the 'corporate' propaganda alleges it to be. Public corporations played a constructive role in the development of almost all countries in the world. We should, therefore, try to distinguish between good and bad forms of nationalisation. It is only realistic to take it for granted that nationalisation will remain a 'plank' in the ANC's economic policy platform. But we must try to convince the ANC that it should be - for a variety of reasons - a 'narrow plank' and one that should be implemented cautiously.

But if nationalisation is not the 'solution' for the unhealthy concentration of power and control in the hands of the Commanding Heights, what will be a solution? The proposals of Mr Nelson Mandela that the Commanding Heights should put viable proposals on the table, is a sensible one. As long as the Commanding Heights are of the opinion that they can remain intact in a New South Africa it is unlikely that they will take the initiative to 'disentangle' themselves or to put alternative policy proposals on the table. It will therefore be necessary to put considerable pressure on them to prompt them to come forward with viable proposals in this regard. The nature of such proposals must

of course be of such a nature that the corporate sector will be 'restructured' in a substantive way and not only in a cosmetic way.

I sincerely hope that the future economy of a democratic post-apartheid South Africa will be a market orientated economy, closely integrated into the world economy (and into the economy of Africa), that it would succeed to maintain a reasonably high economic growth rate and that the democratic government will succeed with a 'wirtschaftsordnungspolitik' and 'developmental state' policies to get rid of the worst inequalities inherited from the apartheid period and to 'restructure' the economy to become functional for promoting the Social Welfare of the total population.

Perhaps I am asking too much, perhaps I am not realistic enough about the (inherent) Third World character of the South African economy. Perhaps I am underestimating the task to create social stability and an integrated social structure after decades of apartheid. Perhaps I am too optimistic about the foreign capital and the foreign support that will become available. Whatever the case, our predominant aim should be to get rid of sectional privileges and to build an economy that will be functional to promote the social welfare of the total population.

5. South Africa's future Economic system from an ideological point of view

I want to conclude this paper by saying something about South Africa's future Economic System looking at from an ideological point of view. It will not be easy to 'restructure' the South African economy to reach what we may regard as the 'ideal' system. It will also not be possible to reach the 'ideal' system over a short period of time. The reason why it will be difficult and time-consuming to reach the 'ideal' system is obvious. Our first task is to move the economy onto a higher growth path after two decades of

relative stagnation, increased deprivation and a deepening of the poverty of the Outsiders. Our second task is to remove all the ugly remnants of colonialism and apartheid. To accomplish these two tasks we need a first stage of say 20 years. Let us call this stage the 're-building' stage. In the second stage during the next 20 years, we could try to build the 'ideal' system suitable for a non-racial and democratic country at the southern part of the African continent.

Because of the wide-spread poverty and the structural maladjustments we should be careful not to be too 'ideological' during the 'rebuilding' stage. During this stage we should already have a clear idea about the kind of economic system we want to create in South Africa over the long run. During the first stage of 'rebuilding' we already need a leitmotiv about the way we intend to 'remould' the economy during the second stage. If we can reach agreement about the leitmotiv we can start to do some essential preliminary work - about the creation of the 'ideal' system - during the 'rebuilding' stage.

I include a simple 'Classification of Political and Economic Systems'. From the point of view of Economic Systems - taking both the political and the economic dimension of Economic Systems into account - South Africa's present system is a strange 'mixture' of 'authoritarian' and 'liberal' capitalism. It has distinct 'colonial' characteristics. We can call it 'Colonial Capitalism'. As part and parcel of our task to democratise our political system (hopefully during the next five years) we also have the task to democratise our economic system. If we can be successful to 'rebuild' and to 'democratise' the South African economy in the next two decades to change it on the ideological spectrum from a system of 'Colonial Capitalism' into a prosperous system of Democratic Capitalism (according to Model B in our Classification) we will have accomplished quite a lot.

A CLASSIFICATION OF POLITICAL AND ECONOMIC SYSTEMS ON THE IDEOLOGICAL SPECTRUM

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AUTHORITARIAN SOCIALISM	DEMOCRATIC SOCIALISM	DEMOCRATIC CAPITALISM		LIBERAL CAPITALISM	AUTHORITARIAN CAPITALISM	CENTRY MERCANTILISM	FEUDALISM (OR FEUDAL CAPITALISM)
		MODEL A Based on an organic notion of the State	MODEL B Based on a mechanistic notion of the State				
1 Political monopoly of Communist Parties + Centrally planned Socialist economic system + command orientated economic philosophy IN (1) the USSR (1922-1990) and in countries (2) East bloc (± 1945-1989) (3) China (1948-)	2 Democratic parliamentary system + Market orientated socialist system but with large government intervention + Highly developed Welfare State IN (1) France - attempted by Mitterand in his first term and by some Italian government, after 1948 (2) India (?) (but with low social spending) (3) Yugoslavia (?) (1948-)	3 Democratic parliamentary system + Social market economy + Social Democracy as economic philosophy + Well-integrated "Developmental state" policy or "Social partnership" between private and public sectors + High social spending (± 25% of GDP) IN (1) West Germany many (1948-) (2) France (?) since 1958 (3) Italy, Holland, Belgium, Spain, Portugal, Sweden (4) Japan (after SWM) and other four dwarfs of Pacific rim (in all five cases social spending is lower)	4 Democratic parliamentary system + (Individualistic orientated) market economy + Free market approach as economic philosophy + Tension between Welfare and Liberal State ideas + Relatively high social spending (± 20% of GDP) IN (1) Britain - tendency towards bureaucratic welfare state (1979-) (b) Thatcherism and tendency towards liberal state (2) USA (a) (1933-1980) New Deal + Great Society (b) Reaganomics (1980-) (3) Canada, Australia, New Zealand, etc.	5 Bourgeoisie controlled parliament + Laissez-faire Capitalism IN (1) Britain during 19th century (2) USA (1789-1933) Rugged individualism after civil war. (3) France (1830-1914)	6 An authoritarian political system + A kind of State Capitalism IN (1) Nazi Germany (1933-1945) (2) Fascism in Italy (1920-1945) (3) Franco's Spain (1939-1975) (4) Salazar's Portugal (1928-1974) (5) A milder form of authoritarian capitalism (plus emerging welfare state spending) in German Empire (1871-1918)	7 Centry controlled parliament + Mercantilism (or Commercial Capitalism) IN Britain (1688-1832)	8 Bourdon Absolutism + Colbertism (Commercial capitalism) + Feudalism IN France (1661-1789)

Possible Economic System for a Democratic New S.A.

ANC

Preferable System

NP

Democr. Socialism

Social Democracy

Bourgeois Democracy

Liberal Democracy

Countries in Central and South America but in some cases with socialist elements

South Africa (since 1910-)
Limited (White) Democracy
+ "Mixed Capitalism" with liberal and authoritarian elements
+ Well-developed welfare state for Whites + bureaucratic patronage for "Uncle Tom"
+ Discrimination against people other than White

Capitalism according to Model B, is the typical British-American type of economic system. It is rather individualistic and materialistic in its approach. It maintains a meganistic notion of society and the state. Perhaps the best way to describe it is that it is a 'welfare state' but with the ideological orientation of Bourgeoisie Liberalism of the 19th century

This ideological orientation of Bourgeoisie Liberalism is still very much alive in London, New York and in Washington. If these were the characteristics of the British-American system in 1980, it is so much the more the case after the (unfortunate) decade of Reaganomics and Thatcherism. The New Right reactionism experienced by the United States and the United Kingdom could only happen in the British-American world. It could not happen - and it also did not happen - in the countries of Continental Europe where the ideological orientation of the Economic System tends much stronger towards social democracy than in the British-American world. (See Model A version of Democratic Capitalism in our Classification of Economic Systems).

A Social Democracy is less individualistically and less materialistically orientated than the kind of Democratic Capitalism typical of the British American world. It is more concerned with society as an 'organic unity'. It is less concerned with the growth of the GDP and more concerned with the promotion of the Social Welfare of society at large. A Social Democracy is, therefore, only possible if the society has attained a relative degree of solidarity based on an unifying social philosophy. Because of a Social Democracy's greater concern with Social Welfare (than with GNP-growth) much more attention is being given to the trade-off between 'equality and redistribution' vs. 'efficiency and economic growth'. From a Social Democratic point of view equality must undoubtedly enjoy a relatively high priority. But in Social Democracy the 'constraints' set by the need for growth and efficiency must never be neglected. Or, to put it differently, in a Social Democratic context equality is both

absolute and relative. It is absolute in its commitment towards decent work and decent living conditions for everyone in the society. But equality is also relative in the sense that the degree to which income opportunities and resources can be redistributed is 'constrained' by consideration for growth and efficiency. In a Social Democracy there is always strong pressure for redistribution but without (unnecessarily) undermining the growth potential of the economy. In a Social Democracy the government needs the wisdom of Solomon with a strong bias towards equality.

To change the South African economic system over the long run into a Social Democratic system, it would be necessary to succeed with the following four social-economic processes: firstly we must move the economy onto a higher growth path and maintain it on the higher level; secondly we must reach parity in social spending and gradually increase social spending as percentage of GDP; thirdly we must 'democratise' the economic structures to a necessary degree to remove the abnormal concentration of economic power and control; finally we will have to create a South African society with the necessary solidarity and cohesiveness. If we can regard democratic structures as one side of the Social Democratic coin, then a society with the necessary social solidarity is the other side of that coin. To create the necessary social solidarity will not be easy, but it is essential. The common values to cement the needed social solidarity cannot be the extreme individualistic and materialistic values of the existing white bourgeois elite. To create the necessary social solidarity it will be necessary to conquer the centrifugal forces of the group selfishness and the zero sum game. It will not be easy to meet the 'social' and 'value' dimension of a Social Democratic System. Consequently it would take a rather long time to create a true Social Democratic System in South Africa. But from a strategic point of view, it can be advantageous to decide already at this stage to chose Social Democracy as leitmotiv because we have reason to believe that Social Democracy will be the economic system in at

least the first half of the 21st century in large parts of the world.

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