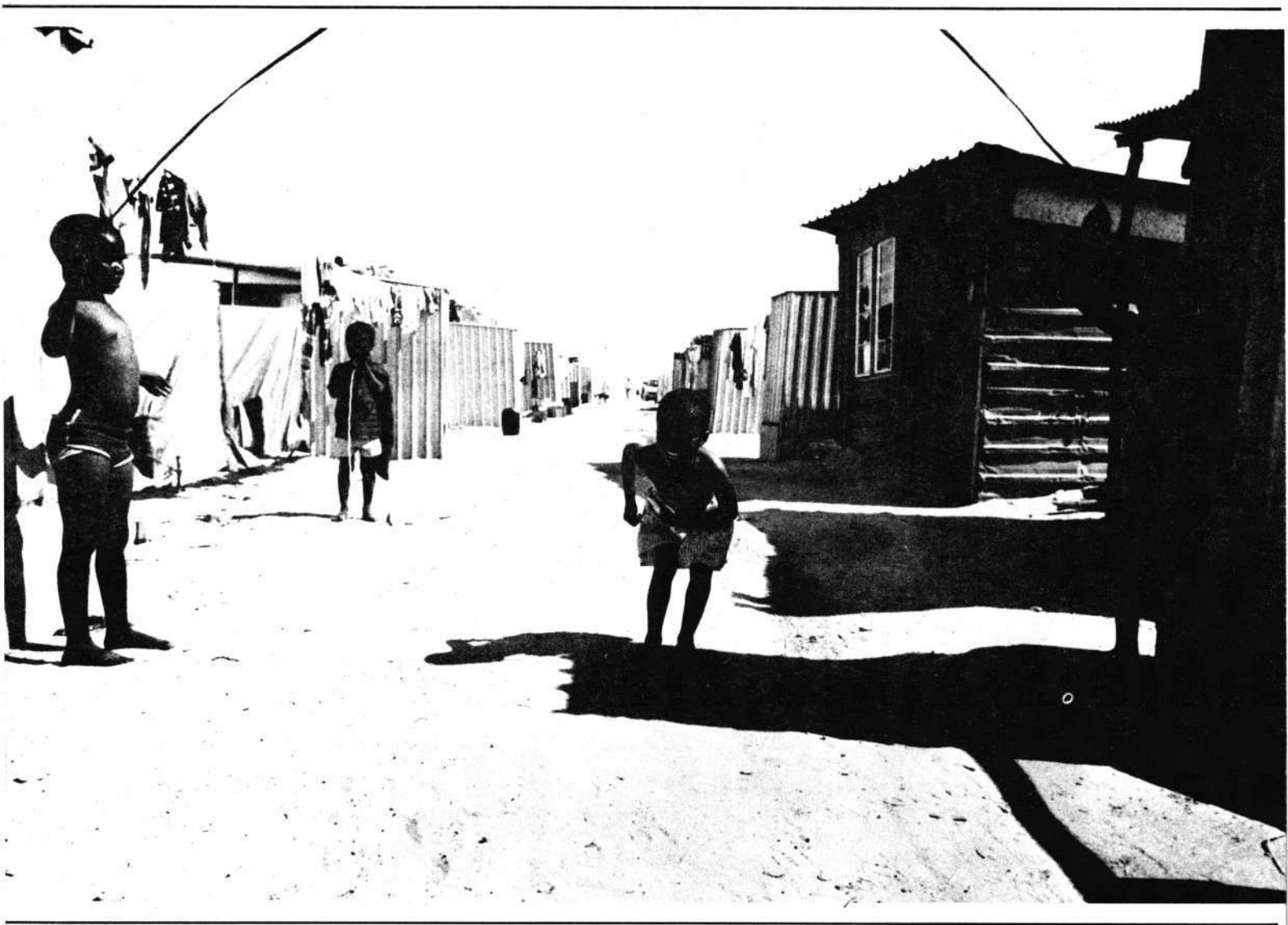


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in this issue . . .

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EDITORIALS

1. 1991 - Where will it take us?

By the end of 1990 many of the euphoric expectations of the first half of the year had been overtaken by anxieties about the future. Now that euphoria has been regenerated by Mr de Klerk's extraordinarily positive speech at the opening of Parliament, and the meeting, at long last, of Drs Buthelezi and Mandela. Will these two important events provide reassuring answers to the many anxious questions with which we started out the year?

Will political violence be brought under control? 1990 gave little hope that it might. Within the state security apparatus and amongst the ranks of most of its major opponents are plenty of people with blood on their hands. It will need considerably more than public appeals for

non-violence from their leaders to persuade such people to change their ways. They will have to be convinced that their own leaders mean what they say, that their opponents' leaders mean what **they** say, and that both the state and their own organisations will come down on them very hard if they persist with their violence.

Will criminal violence be brought under control? We started 1991 with promises of a massive drive against crime. It won't work unless there are a great many more properly trained policemen about, visibly committed to the impartial policing the State President has promised. Years of enforcing apartheid's laws have completely alienated the police from large sections of the population.

They need the support of those peoples' communities if they are to fight crime effectively. They will not get it until many of them change their ways.

Can the economy be turned around, and new jobs in large numbers become a real possibility, if not this year, at least soon after that? The crumbling of sanctions at least provides a start in the right direction, but the internal instability of the country and concerns about future economic policies are severely inhibiting factors. Investors want to know how deep within the ranks of potential members of a new government the commitment to a mixed economy runs.

Relevant to this question is another. What precisely is the future relationship between the ANC and the South African Communist Party going to be? One asks this, not with any intention of stirring up a witch-hunt, but because the ANC is on a recruiting drive and people need to know. Periodically during recent months the SACP has announced the election of regional and branch office-bearers. Periodically the ANC has done the same. Presumably people elected to office in the SACP are paid-up members of that Party. It seems that a significant number of people elected to office in the ANC also are. This is a curious arrangement, too reminiscent for comfort of the one we had to live with between the Nationalist Party and the Broederbond for all those unhappy years. As for economic policy, any influence the SACP might have on the ANC is bound also to be an unhappy one. Not everyone in its leadership seems to have been persuaded by its universally disastrous record that communism can't work, and one fears that many of the people who wear its tee-shirts and attend its rallies still think the SACP can bring Utopia here. One doesn't have to be an unrepentant capitalist or a free marketeer to hope that our future will be based on more constructive economic thinking than that.

What about the land question? The Land Acts and the Group Areas Act are to be repealed, but much more than that is needed. The Government is to publish a White Paper on its proposed land policy. A first step must be the return to the people who have been dispossessed since 1948 of what apartheid took away from them. After that a considerable measure of redistribution based on sustainable productivity must surely follow?

What will happen about Umkonto weSizwe? Its integration into the SADF is an essential element in the transition process, but how can that even be contemplated while the threat to resume the armed struggle remains? No government in its right senses would willingly incorporate a potential fifth column into its military structures.

What about the rumours of a pact between Inkatha and the PAC? If ever there was a marriage of convenience that would surely be it. They differ on almost every aspect of policy, from the "armed struggle" to economics. Far better than their forming a pact would be to draw them speedily into a genuine national negotiation process. This the commitment by both the ANC and the Nationalist Party to a Multi-Party Conference now makes possible.

Mr de Klerk's speech on February 1st leads inevitably to the end of apartheid, however reluctant some of his opponents may be to concede that. The road ahead also clearly leads to some kind of non-racial future. We must start talking now, without further delay, about what the shape of that future is to be. If that can be done soon, and there seems to be hope of achieving a reasonably acceptable result fairly quickly, many of the fears and frustrations which spur the actions which worry us today, could be diverted into constructive nation-building for the future.

That is what we must hope will start to happen in 1991. □

2. Harms and Kriegler

However the reader of the Harms Commission enquiry into the death squads may have reacted to its findings, or lack of them, there is no denying the anodyne effect of the Commission's report. The CCB existed but there was no proof that its activities were known to, and sanctioned by, higher military or political authority; political responsibility for it was not the concern of the commission and, in any event, the CCB had since disbanded. The only problem that remains is of tighter financial control of military spending. The Vlakplaats death squads did not exist. If Coetzee and his associates had carried out death squad operations there was no proof that they were official. In any event, Coetzee could not be believed. The whole idea that the government used death squads to eliminate its political opponents can easily be dismissed, in the light of the Harms report, as little more than the

fantasies of an over-heated liberal imagination.

This outcome of the official enquiry into death squads produced a profound sense of disquiet among civil rights lawyers and many others concerned with government malpractices. The recent judgement of Mr Justice Kriegler in the law suit between General Lothar Neethling and Die Vrye Weekblad and the Weekly Mail may change all that. While the judgement is apparently to be taken on appeal, Mr Justice Kriegler did make a clear finding on Dirk Coetzee's credibility on the issues before the court and particularly on the issue of the supply of poison to eliminate anti-government activists. We shall have to await the outcome of the appeal on these issues but it does now seem possible that several chinks may yet appear in the official cover-up of CCB and other clandestine security activities. □

Introduction

The six articles in this collection consist of five academic analyses of problems facing the South African economy and what might be done about them and a party manifesto. Insofar as the left/right distinction continues to make sense, the academic studies are ordered in terms of it. Eustace Davie represents a right libertarian perspective, assigning the poor performance of the South African economy to various forms of government interference. The following three articles (by Andrew Donaldson, Michael McGrath and Gavin Maasdorp/Julian Hofmeyr) can be described as centrist and the final article by Stephen Gelb comes from a socialist position which takes seriously the crisis within the socialist tradition and seeks new articulations. The Democratic Party Economic Policy Manifesto "A social market economy" is the last document in the collection.

There are some themes which are taken up by a single author and some which are dealt with by more than one. Specific to the right libertarian position are proposals to stop inflation by freezing the money supply in its most narrow definition (notes and coins in circulation plus deposits of financial institutions with the Reserve Bank), to allow foreign currencies to compete with the Rand within South Africa, to give shares in all state enterprises to all citizens and to slash taxes. Critics of these positions would argue that the causes of inflation are more complex than implied by the policy proposal and that the real costs of this policy measure (assuming that it did manage to stop inflation) may be higher than the real costs of tackling inflation in other ways. They would also argue that the ultimate outcome of giving shares to all citizens would not be the same as the distribution of wealth immediately after the allocation of shares. The poor would find themselves holding more than the desired stock of wealth for their levels of income and would sell shares to richer people, devoting the proceeds to the financing of consumption. Moreover, if shares are given away, it is also not clear where the money would come from to balance the budget and reduce or pay off the public debt. The argument about the deregulation of exchange rates and the effective removal of the prohibition on holding foreign currencies is the most interesting and may be studied in greater detail in authors like Hayek.

Donaldson offers some unusual and interesting perspectives. He observes that, as well as costs, there are benefits resulting from the imposition of financial sanctions in the form of forced increase in savings and acquisition of foreign assets on favourable terms. The rise in semi-skilled wage rates over the last two decades has forced accelerated learning both in the formal and the informal sectors. There will also be a forced increase in investment in urban infrastructure. The greatest danger lies in major institutional changes without dismantling of outmoded attitudes and behaviour; this leads to severe social conflict.

The extract from Michael McGrath's inaugural lecture

deals with a strategy for redistribution with growth. Means suggested include stimulation of agriculture, deregulation of small business, increase in old age pensions, a labour-intensive programme of infrastructure construction and educational reform. McGrath estimates that (assuming user charges for quality services) an equalitarian supply of educational and health services, basic housing provided over a decade, and pensions can be attained by increasing total government expenditure by 35% above its present level. Given a 5% growth rate from a 1989 base, McGrath sees the share of government in GDP as not exceeding 31% in the period up to the year 2000. His scenario requires huge capital inflows in the first few years, with a consequent rapid rise in the ratio of foreign debt to GDP. Should these not be forthcoming, the process would have to be slowed or halted. Policies to stimulate domestic savings and restrain government spending would also be essential. McGrath sees the International Monetary Fund as helping to impose the necessary discipline.

As far as redistribution through the state is concerned, McGrath argues that the tax system is a weak redistributive device. A modest increase in redistribution can be achieved by estate duties imposed with a lower exempted value than at present. Instead, he sees much greater scope for redistribution on the expenditure side, arising from the elimination of racial inequalities and the introduction of better targeting of the poor.

McGrath mentions the use of housing and construction as lead sectors in an inward industrialisation policy. Maasdorp and Hofmeyr take up this theme in more detail, observing that particular attention needs to be paid to the funding of expenditure, job-creation potential and impact on consumer spending, savings and investment. They warn that concentration on inward industrialisation should not detract from the tasks of productivity improvement, extension of export markets and streamlining of the institutional and regulatory environment. Nor should rural areas be neglected.

Gelb distinguishes between an "neo-liberal export-oriented growth strategy" and a direct growth strategy based on expansion of labour-intensive basic consumer goods industries. He regards these strategies as having substantially different implications for the nature, extent and time-scale of redistribution and sees little scope for a compromise between these strategies. The direct growth strategy would focus on the redistribution, not of consumption, but of investment. This redistribution would require substantial state intervention in the investment process, private firms accepting a subordinate role in exchange for the creation of a framework for profitable production. Part of the process would involve the dismantling of conglomerates and an increase of the role of the banks (subject to the regulation of the Reserve Bank) in corporate financing. (McGrath argues for a contrary view on the role of the conglomerates. He believes that they

should be used constructively for increasing investment, especially in the small business sector.)

Two observations on Gelb's arguments need to be made. The first is that it is not obvious that a balance cannot be struck between export promotion and inward industrialisation. Even if inward industrialisation does not require much by way of imports because of relatively low import intensities and existing excess capacity in many sectors of the economy, there will be an increase in demand for imports, room for which has to be made by increasing exports or by capital inflows. The prospects for large capital inflows do not seem all that bright; this is one of the major problems with McGrath's scenarios. On the other hand, suitable conditions for investment will not be created unless there are widely-distributed increases in living standards; this requires expansion of the output of housing and basic wage goods. The second is that, although Gelb refers to conditions for profitable production, he does not spell out what creating these entail. Take housing for example. A successful housing programme requires a change in government subsidy policy, change in the retail practices of financial institutions and a sharp increase in the capacity of local government to regulate development and undertake the necessary infrastructural development. Were reforms of this type to occur, a case can be made for expecting private funds to flow in the appropriate direction without much in the way of state regulation. Further, were funds to be directed into housing without these reforms, one could expect substantial inefficiency to result. Development is at least as much about institutions and habits as it is about money.

Finally, the economic policy manifesto of the Democratic Party – the standard-bearer of liberal reform in South Africa – is printed. The policy models itself on the "social market" approach – this has been the broad West German consensus (obviously with different party emphases). In

outline, it is compatible with the three liberal academic analyses in this collection.

The question arises: what are the political conditions for the successful application of Liberal policies to the South African economy? Three seem to be of central importance:

- i) the South African economy must be successfully reintegrated into the world economic order. This will have three desirable results: it will become easier to expand exports, it will help turn capital outflows into capital inflows and it will subject South Africa to the discipline of international markets. A more liberal foreign exchange regime may both be required and facilitate this reintegration. Such a regime would provide rapid feedback of both successful and unsuccessful policy innovations at the national level;
- ii) South African business must take advantage of this reintegration by devising strategies for export promotion. Quite what role the state needs to play in this is the subject of an active contemporary debate. Positions range from "getting prices right" to advocacy of quite detailed state dirigisme;
- iii) measures need to be taken to ensure that the benefits of demand expansion made possible by the easing of the balance of payments constraint are spread widely throughout the society. This will involve reform of state practice, courage on the part of private enterprise to enter new domestic markets and a series of compacts between interested parties on the ground rules of how living conditions are to be improved (e.g. in the fields of housing and electrification). Particular attention will need to be paid to poverty alleviation. The aggregate increase in personal incomes required to bring households up to Minimum Living Level is not great in relation to total personal income; the difficult part is accurate targeting. □

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How to stop causing poverty

Why is the South African economy in such a poor state? For the same reason that most other economies in the world are in a poor state – the government won't stop meddling with it. The government should confine itself to the very important task of keeping the peace and establishing and maintaining the rule of law, and leave the economy alone. In other words in order to allow the economy to recover it is necessary merely to determine what government must stop doing.

This approach differs markedly from the conventional view that government is responsible for managing the economy and ensuring a high quality of life for all citizens. Implicit in it is the conviction that resources are allocated most efficiently when an economy is consumer-directed.

We now know, or ought to, that central planning ends in disaster. The plight of the citizens of the Soviet Union and its former satellite countries provides us with ample evidence of the failure of such intervention. Amazingly, some diehards are still not convinced. They believe that all those dedicated communists just did not do it right. What we need, they say, is a mixed economy: a little of the hated capitalism mixed with as much social engineering and intervention as the citizens can be persuaded to accept. Fortunately, the empirical evidence is making ordinary citizens wary of politicians who promise them wealth if they will just follow orders.

Comparisons between prospering and struggling economies, and between periods of prosperity and decline in the same economy show us which interventions are most detrimental. Such comparisons suffer from the difficulties inherent in all attempts to quantify economic results. Moreover, measuring the success of an economy in terms of economic "growth" requires caution. In earlier years, for example, there was great admiration for the "growth" of the Soviet economy. Yet we now know that the supposed growth was spurious. Soviet consumers did not benefit from the huge investments made by their government. According to P.T. Bauer a proper definition of economic growth must mean, "an increase in the range of effective alternatives open to people."¹ Compulsory saving, in terms of this definition, imposes losses and reduces the choices open to people and can therefore not lead to economic growth. Government "investment" suffers from the same deficiency; it also ignores the voluntary choices of consumers and does not increase the alternatives available to them.²

From numerous studies of successful and unsuccessful economies we can compile a checklist of good and bad policies, and use it to identify what is wrong with the South African economy. Here, then, are some of the do's and don'ts:

1. GOVERNMENT PLANNING AND INTERVENTION

Elaborate government planning based on long-term economic predictions is generally counter-productive. The predictions tend to be inaccurate and the planning politically biased. In nominally non-socialist states the damage caused by government planning and intervention is often concealed because economic activity, though constrained by the intervention, does not collapse. The socialist economies of Eastern Europe and the USSR collapsed because production was guided by government planners and not by prices resulting from peaceful voluntary exchange ie by consumers.

2. BUDGETARY DEFICITS

Deficit budgeting, once started, is exceedingly difficult to stop. Pressure always increases for ever-higher deficits. Failure to balance budgets and an unwillingness to raise taxes to cover deficits leads governments either to indulge in heavy borrowing or to print money. Government borrowing raises interest rates and absorbs resources that could be more productively employed by private borrowers. Printing money (monetary inflation) causes a general rise in prices (price inflation) which eventually distorts the whole economy. The most honest and least destructive way of financing government expenditure is to raise taxes and balance the budget. If taxes are raised, voters at least know how much government is costing them.

3. INFLATION

Inflation makes it impossible for businessmen to do meaningful economic calculations. This leads to the squandering of capital through malinvestment and overconsumption. Persistent and increasing unemployment under inflationary conditions repeatedly proves that Keynesian deficit spending and cheap money policies cannot eliminate mass unemployment, especially not when trade unions are granted the power to extract wage increases which are above the marginal product of labour.

4. EXCHANGE CONTROL

Exchange controls are an attempt to stem the tide of events that follows when the exchange rate of the domestic currency is arbitrarily set too high. Overvaluing a currency subsidises imports and is tantamount to a tax on exports. When this causes imports to rise and exports to decline the response is to impose import tariffs and subsidise exports. The cost is enormous, both in bureaucracy and in the resulting disruptive effects on the economy.

5. PROTECTIONISM

Restrictions on imports reduce both imports and exports. Investment is attracted away from more

efficient export industries to less efficient protected industries. The result is a steady decline in the efficiency of the economy and a substantial reduction in international trade. Protection is often granted on the basis that it will be withdrawn once an industry is established and capable of competing effectively on international markets. Government's purpose in granting protection to so-called "infant industries" is to increase employment and allow the industries to train workers to a level of efficiency which will make them competitive with workers in other countries. In almost every case the day for withdrawal of protection is postponed indefinitely, the "infant" never grows up.

6. TAXATION

High taxes reduce investment and economic growth. Even worse, if they are combined with tax incentives intended to encourage economic activity favoured by government, distortions result. High taxes mean high government expenditure – the consumption of wealth and not its creation. Every Rand taken out of the pocket of a taxpayer to be spent by government means a Rand less for the purchase of goods and services, or for investment. Economies grow fastest when capital investment per capita grows fastest. General prosperity also increases most rapidly under such conditions. Policies that reduce domestic capital accumulation and foreign investment therefore also reduce growth and bring about increased poverty. It is because there is higher capital investment per capita in the USA than in South Africa that Americans earn more than South Africans. High taxes reduce domestic investment and also discourage foreign investment.

7. QUOTAS AND LICENCES

Restrictions on imports, exports, production, marketing and other economic activities are invariably arbitrary and contrary to the interests of consumers. Such restrictions always involve the possibility of corruption and result in economic inefficiency. Licensing of people involved in occupations and professions has the effect of driving up fees and reducing competition.

8. STATE ENTERPRISES

Governments are inclined to favour state enterprises by granting them monopoly statutory protection. At the same time they impose politically motivated burdens upon them. State enterprises are neither compelled nor allowed to act in a competitive manner, subject to the full discipline of the market. They are often forced to set artificially low prices (especially for electricity and transport), to apply wage and salary rates which are out of line with market rates, and to continue running non-economic operations. Because state enterprises are usually involved in crucial industries, inefficiencies and distortions caused by their non-economic behaviour have a far-reaching effect on economic activity.

In *Economic Policy and Economic Growth*, Arnold C. Harberger summarises the essays of various authors published earlier in *World Economic Growth*. Following are some of his conclusions regarding the relative success of the economies of some of the countries studied.³

UNITED KINGDOM

Until the introduction of Margaret Thatcher's privatisation programme there was little difference between the policies pursued by Labour and Conservative parties in postwar Britain. Conservatives were the first to institute economic planning and prior to 1980 did not reverse any of Labour's nationalisations or extensions of the welfare state. Government expenditure, under governments of both parties, rose from 27% of GDP in the late 1950's to 41% under Thatcher in 1982. Other factors which led to Britain's low growth rate (average 2,25% between 1953 and 1982) were: (i) real wages kept rising in the face of economic stagnation and growing unemployment, amidst poor labour relations, and (ii) Britain started the 1950's with a serious currency overvaluation which successive governments refused to correct.

JAPAN

Japan's growth rate averaged 11% per annum from 1965 to 1970. This declined to less than 5% per annum in the period 1970-80 and around 3% in the following years. Stagflation marred the performance of the Japanese economy in the mid-1970's. Inflation was in double digits for three years starting in 1973, and reached almost 25% in 1974. The inflation occurred because the Japanese monetary authorities, faced with higher foreign earnings, almost trebled the money supply between 1970 and 1976 instead of allowing the currency to appreciate.

GERMANY

The West German economy slid from the halcyon days of the "German miracle" in the 1950's to virtual stagnation at the beginning of the 1980's. In the early years the emphasis was on the market, private control of resources, competition and an open economy. During the 1970's policy shifted towards the welfare state. Entry of foreign labour was almost stopped, labour-intensive industries received protection, compulsory employee benefits were increased, and the dismissal of employees was made increasingly difficult. Government introduced new programmes to aid the disabled, the unemployed and workers in general. "Subsidies and benefits for education, retraining, child care, housing and savings were substantially increased, pensions were raised, ... and subsidies for weak firms, weak industries ... and weak regions were piled up. In addition the public sector increased its supply of services and engaged in large-scale promotion of civil servants. As a result there was a massive expansion of public expenditures ... and a shift from public investment to public consumption."⁴

The conclusions are: (i) growth was rapid when government was small, and slowed when government became large; (ii) rapid development occurred when government followed a supply-side policy, deregulating the economy and removing the barriers to trade; (iii) when wage policies were moderate, economic growth was high, real wages increased rapidly and there was full employment. Aggressive wage demands pushed up the share of wages in the GNP, the rate of increase in real wages declined and mass unemployment occurred; (iv) growth was rapid when government expenditure was moderate, but declined sharply after some years of emphasis on redistribution.

SWEDEN

Sweden's economy grew at an annual rate of over 4,5% of

real GDP in the 1960's, declined to less than 2% in the 1970's, and started shrinking in the 1980's. Inflation rose from 4,4% in the 1960's to over 10% per year in the 1970's. Stagnation became marked in the mid-1970's when inflation exceeded 10%. Budget deficits increased rapidly from under 2% of GDP in the 1960's to 5% in 1978, over 7% in 1979, over 8% in 1980, and over 9% in 1981, financed largely by borrowing from financial institutions. Government expenditure grew at the same time from approximately 50% of GDP in 1975, to 70% in 1983, while taxes and fees remained static. The number of government employees, together with employees working in government-financed programmes, increased from 44% of the total workforce in 1965 to 59% in 1970, 69% in 1975, and 84% in 1981. Marginal rates of taxation of blue-collar workers had increased to almost 70% by 1970, whilst the marginal rates of white-collar workers increased to 80% in 1980-82. At these levels an upper limit was reached beyond which higher tax rates could not be expected to yield higher tax receipts.

TAIWAN

At the beginning of 1950 Taiwan followed the then fashionable economic policies of high trade barriers and low interest rates, with a rate of price inflation that was as high as 10,3% per month in the first three months of the year. Exports totalled US \$96 million in 1954 and imports exceeded exports by more than 50% from 1951 to 1954. Over the next three decades conditions changed dramatically. By 1980, per capita income had increased fourfold. Exports had increased by a multiple of 200, and imports by 100, measured in US dollars. Exports in 1980 were nearly 20 times those of 1969, 100 times the 1961 figure, and 200 times the 1954 exports. This remarkable performance followed the abandoning of protectionist trade policies (high protective tariffs, import licences and quotas, and multiple exchange rates), and liberalisation of the economy. Apart from a brief lapse in 1973, interest rates remained positive after the low-interest policy was discarded in 1950. Both these measures were directly contrary to the import substitution and low interest rate policies that were at the time considered to be essential for the promotion of economic growth.

Positive interest rates led to a high level of savings even though per capita incomes were initially relatively low. In the 1970's domestic savings as a percentage of national income reached the remarkable level of 35,2%, compared to 20,0% in Japan, 8,3% in the U.K., and 6,5% in the U.S. This meant that Taiwan could finance growth from domestic saving and was no longer dependent on foreign investment. Between 1964 and 1979 the incomes of the poorest 20% of the population rose (from 7,7% to 8,6%) whilst the incomes of the wealthiest 20% declined steadily (from 47,1% to 37,5%) as a percentage of national income. Professor S.C. Tsiang, one of the principal architects of the economic liberalisation programme, said about Taiwan: "It has demonstrated how sustained rapid growth without tears and bloodshed can be achieved in a peaceful and humane way based on sound classical economic principles."⁵

PROPOSALS FOR POLICY CHANGES IN SOUTH AFRICA

Obviously our economy must grow if we are to reverse the fall in per capita incomes while at the same time improving equity. Everyone must become richer, but the poor must

become richer faster. Timid changes will not bring about the necessary growth as rapidly as it is needed. Bold and fundamental changes will have to be implemented. Drawing from the above information, and considering particular interventions which exist in South Africa, my recommendations are:

1. ABANDON PROTECTIONISM

Trade with other countries will improve rapidly when tariff barriers are removed. If the Rand is unified and exchange controls are abolished at the same time, existing industries will receive protection from an initial lower Rand exchange rate against other currencies.

2. DEREGULATE FINANCIAL MARKETS

Stop inflation. Inflation can be stopped in its tracks by freezing MO (notes and coins in circulation, plus deposits of financial institutions with the Reserve Bank) a monetary measure over which the Reserve Bank has complete control.⁶ Although not the best solution to the problem of inflation, it is at least second best, and can be implemented immediately. Competing currencies provided by private issuers offer a more lasting solution.⁷

There has been a close correlation between the growth of MO over the past ten years and the general increase in consumer prices.⁸ The annual rate of increase in MO declined to 13,5% in August 1990 from a rate of 35% over the past few years. Significantly, price inflation has also declined.

Freezing MO must be accompanied by the simultaneous deregulation of financial and other markets. If the general public is convinced that the government will honour this sound money policy, price inflation will decline rapidly.

Abolish exchange controls. This will allow a real exchange rate to be established. The financial Rand would have to disappear. Perceptions as to the credibility of the government and the Reserve Bank in halting inflation would play a role in determining the exchange rate at the outset.

Deregulate foreign exchange. A foreign exchange market, outside the control of the Reserve Bank, should be allowed to develop. All barriers which prevent or discourage foreign banks from operating in South Africa, such as minimum requirements for local shareholding should be abolished. Foreign currencies should be allowed to compete with the Rand on the local market and Legal Tender laws should be repealed to make this possible.

3. PRIVATISE STATE ENTERPRISES

Shares should be given to all citizens in a comprehensive programme to privatise all state enterprises. Increased efficiency in the management of the enterprises would result, past inequities would be addressed, and a massive transfer of capital to millions of productive people would occur.

4. SLASH GOVERNMENT SPENDING

This would allow the budget to be balanced, accumulated debts to be paid off and taxes to be reduced. All of these are essential if productive enterprise is to be allowed to create the wealth and the jobs which are so sorely needed.

5. ABOLISH INTERVENTION ON A GRAND SCALE

Deregulation is necessary to remove all obstacles to peaceful voluntary exchange. Apartheid laws such as those preventing black South Africans from engaging in farming should be high on the list for removal. At the same time, all those regulations which interfere with the production, marketing and financing of farming activities must be repealed. The same applies to regulations in manufacturing, building, transport, services, retailing and every other aspect of economic life.

CONCLUSION

Abandoning protectionism, providing a sound currency and deregulating the financial markets can be done without opposition from the radical political parties in South Africa. They therefore top my list for immediate implementation. Taiwan doubled its foreign trade every few years by liberalising trade and financial markets. South Africa can do the same. Other potential benefits are rapid wealth creation, and the raising of the standard of living of the poor at a faster rate than that of the wealthy, something that most South Africans would like to see.

Peace will not be achieved whilst there is abject poverty and mass unemployment in this country. Economic initiatives that equal the daring yet fundamentally sound political changes we have witnessed during the past year are vital. Trade liberalisation would send a message to the world at large that we want to do business. It would also send a message to the people of South Africa that a secure and prosperous future is possible.□

NOTES

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Among our contributors

Eustace G. Davie is a director of the Free Market Foundation.

Andrew R. Donaldson is a lecturer in the Department of Economics and Economic History, Rhodes University.

Stephen Gelb is a research officer in the Socio-Economic Research Institute, University of Durban/Westville.

J.F. Hofmeyr is a Senior Research Fellow in the Economic Research Unit, University of Natal, Durban.

G.G. Maasdrop is a Research Professor in the Economic Research Unit, University of Natal, Durban.

M.D. McGrath is Professor of Economics, University of Natal, Pietermaritzburg.

Carmel McNaught is a Senior lecturer in the Department of Education, University of Natal, Pietermaritzburg.

Christopher Merrett is Deputy University Librarian, University of Natal, Pietermaritzburg.

Simon Roberts is a Pietermaritzburg attorney.

Charles Simkins is the Helen Suzman Professor of Public Economics, University of the Witwatersrand.

Alison Todes is a lecturer in the Department of Town and Regional Planning, University of Natal, Durban.

The current costs of a prosperous future:

Some aspects of growth and redistribution in the South African economy.

The South African economy has performed very poorly during much of the past two decades. The consequences of this are that unemployment and poverty have worsened, productivity growth has been retarded, and accumulation of capital has been slow. It is also possible that the violent turns which popular political mobilisation have occasionally taken are related to the unhappy state of trade, for under desperate circumstances politics are not conducted in quiet tones. And when the economy is weak, government's reaction to unrest all too easily takes on brutal forms, less costly than socio-economic upliftment.

This is a dismal picture. There is, however, another side to the record of the 1970s and 1980s. One outcome of the imposition of financial sanctions, for example, is that we have been forced to save more than we would otherwise have done. Formerly foreign-owned assets have been acquired on favourable terms and the annual cost of servicing foreign capital and loans is lower than it would otherwise have been: future generations will benefit from this. But the more important sources of future progress and forms of investment in the South African economy which have been made in recent times cannot tidily be described or quantified. We have begun to create the social, legal and institutional environment for a post-apartheid society and we have begun to distribute economic opportunities and human development more fairly.

This is not just a matter of dismantling apartheid and creating the conditions for a just social and political order. The foundations for accelerated long-run economic growth are also being laid.

The construction of a non-racial society and a just economy has, of course, a long way to go yet. Until the architects of the new order are answerable to a non-racial democratic political order, their designs will be little more than temporary shelters. But we should not make the mistake of thinking that 'nothing has changed'. Some things have changed a great deal, and these changes are shaping our economic future. Change is a costly process, with many possibilities for going wrong: it requires, if accelerated growth is to be accompanied by effective redistribution, participation in decision-making by a wide spectrum of interests. The alternative is that the shape of the post-apartheid society and economy will have been cast in concrete by the present regime by the time a democratic government takes over power.

Four key aspects of socio-economic restructuring are discussed below.

Wages and prices

Relative prices and wages determine the real rewards which attach to work and enterprise of different kinds. What have been the most striking trends in recent decades?

Wage rates for semi-skilled labour in the formal sectors of the economy – principally, in mining, manufacturing and construction – rose in real terms during the 1970s and early 1980s. Broadly speaking, the sharp gap between black and white wages in industry, reinforced by apartheid discriminatory policies in the past, is giving way to earnings differentials attributable to skill differences. These are in turn associated with education, training abilities and other sources of productivity. However, there remains a marked, and probably increasing, gap between wages in the formal unionised sectors of industry and incomes of farmworkers, household service workers and the growing underclass of informal sector and seasonal or semi-employed workers in towns and in rural areas.

It is frequently argued in business and financial circles that unions, by driving up wages, worsen the unemployment problem in the economy. The prospects of sustaining industrial development clearly hinge, in part, on international cost-competitiveness, and wages are a major item in the cost calculation. But the issue is more complex than this. Our cities are now 'dual economies' in the sense that there are large numbers of people without formal work who depend on informal trading opportunities. Rising wages in industry are an important source of incomes and indirect job creation in the fleeting shadows between the formal and informal economies. Jobs are lost when employers curtail employment as real wages rise, but incomes are also created through the associated increased spending of the employed in informal services.

Furthermore, and this is more important, this trend is associated with accelerated **learning** in both the formal and informal sectors. In industry employers have to increase training and reduce organisational slack if productivity is to keep up with wage rises, while in the informal sector entrepreneurial and productive skills are fostered as bricklayers, mechanics, dressmakers and traders respond to new opportunities.

The 'recorded' economy may not be doing well, but there is a 'restructuring' of employment and remuneration going on here which is in some respects good for both income distribution and long-run growth. 'How good' we don't yet know. In the most favourable scenario, informal and low-income trading concerns will grow, become more

profitable and in due course be drawn into the recorded growth of the formal economy. In a less happy scenario, in which formal job creation fails to keep pace with numbers of workseekers, it is all the more important that a vibrant secondary sector in suburbs and townships should be maintained by the spending power of the waged.

Getting administered wages and prices right will be an important factor in determining growth prospects. The relentless growth and complexity of the bureaucracy and of parastatal corporations required for the increasingly ineffective 'modernization' of racial domination, have put such pressure on markets for scarce managers, professionals and administrators that expertise has become expensive, making this a costly economy in which to establish, expand or diversify. The less useful parts of the public sector - homeland administrations and corporations, for example - provide job security and comfortable incomes to too many people. And the economy has suffered in the 1980s from rather inept monetary and exchange rate policies: business confidence and investment will depend on more stable financial conditions. In this respect the second half of the 1980s has been a marked improvement on the previous decade or so, and there have been encouraging signs recently in foreign trade and capital flows.

Urbanisation

Accelerated urbanisation is costly. Physical infrastructure and services have to be paid for and require complex kinds of cross-subsidisation and long-term financing as migrants to cities do not bring with them the necessary capital. But urbanisation clearly represents an important form of investment and in future welfare and quality of life.

The opportunities for human development are more diverse and more vital in urban environments. Schools, colleges and sports facilities are more accessible, health services are available, trading opportunities abound: in general, more people and more activities mean more rapid learning of skills and abilities. There are also congestion costs, of course, and these may be considerable in inadequately serviced townships and informal settlements. Over-crowding brings with it distress and conflict. The benefits of urbanisation do not come cheaply.

This means that, for a while, current consumption and living standards must be reduced as the backlogs of 'retarded urbanisation' over past decades are redressed. The process is underway, but far from optimally. Government subsidisation of housing under the 'First Time Home Owner' scheme has been so generous that there has been no prospect of extending the system to the majority of low-income urban migrants. A review of housing policy has been undertaken and the Urban Foundation has gone a long way towards identifying more appropriate financing arrangements. Attention now needs to focus on the training, organisational and technical aspects of promoting small-scale building and engineering contracting. This is a sector in which import requirements are limited and much can be done labour-intensively. It makes no sense for an economy crying out for urban infrastructural and residential development to have extensive unutilised capacity in its construction sector.

Investment

Apartheid South Africa, fearful of the prospect of international isolation, committed very considerable resources to preparing for a long-term siege. It is probable that the SASOL and MOSGAS projects, much of the armaments industry created during the past thirty years, and a substantial part of the social and industrial research financed by the state, were not warranted on strict cost-efficiency grounds. We have, in effect, infested scarce resources, particularly scarce expertise, in preparing for a future to which we need not, thankfully, be condemned.

Future generations will be the more prosperous for the redirection of these resources to the provision of goods and services the post-apartheid economy will require. This process has begun. Research priorities have shifted, government is reversing its commitment to self-sufficiency, and the provision of social services and development initiatives is becoming less blatantly discriminatory.

For the immediate future, however, we are confronted with scarcities and constraints which arise from inadequate investments and inappropriate government programmes and policies in the past. Agricultural extension in homeland rural areas is inept, the quality of schooling is appalling, new technologies for low-income housing projects have to be learnt, there are not enough accountants and bookkeepers to keep small businesses on the right side of profitability. The industrial decentralization policy has contributed to the creation of infrastructure in low-wage regions of the economy, with some spread of employment, but probably at some cost in terms of investment in the metropolitan core.

Much of the challenge is to use existing facilities more effectively. Good transport networks, for example, which have served the dubious purpose of moving workers between apartheid-defined places of work and places of residence, also provide the basis for efficient movement of goods and services. Substantial excess capacity in electricity generation means that electrification of metropolitan townships and rural areas is possible.

Plainly, physical infrastructure - roads, rail-links, water supply systems, industrial sites - cannot be accumulated in one step. Equally, and this is perhaps less obvious, investment in social infrastructure cannot occur rapidly. Spending more money on education or health, or creating new development corporations, serves little purpose if the real resources required for the services do not exist. The most scarce of resources are competent 'development people': educators, health practitioners, innovators and administrators. So it is possible for increased spending even on education to outstrip its usefulness.

The 1980s has seen a modest increase in government spending on social infrastructure, some attempts to redress racial imbalances in the available resources, and an acceleration of investment in urban residential infrastructure. The process has a long way to go before the shape of the apartheid city will fundamentally change. There are complex interplays between migration to the cities and prospects for land reform and agricultural development in homeland areas which are not yet adequately understood. As programmes of **investment** in the post-apartheid economy, the benefits of these reforms will belong to future generations.

Institutions, innovation and information

Dismantling apartheid is fundamentally a matter of institutional reorganization, and in this regard government's responsibility for regulation, legislation, arbitration and coordination is crucial. Apartheid reaches deep into the social fabric of South Africa and so the institutional transformation required is radical. There still, nonetheless, be important threads of continuity with the past.

Both the power of organized labour and the mobility of black workseekers have increased dramatically with the implementation during the past decade or so of recommendations of the Wiehahn and Riekert Commissions respectively. These two trends must be seen together, of course, as the influx of workseekers to cities has served to some extent to moderate the effective bargaining power of trade unions. Government attention to the control and pace of urbanisation of cities and townships, deracialisation of trading and public amenities, and attempted reform of local government are inter-related with the reorganization of the industrial labour market which began in the late 1970s.

Also associated with these trends is the somewhat ponderous reform of black education which is in progress and the rather more dynamic mushrooming of non-formal training activities which has occurred in the private sector during the past decade.

Alongside these major trends are numerous reforms and adaptations of companies, official agencies and non-governmental organizations, new projects, public lobbying and agitation, and political re-grouping. Clearly innovation is facilitated by liberal values in society: a tolerance of change and wide freedoms of choice. Change is also facilitated by good quality education, social mobility, urbanisation and international movement of people and ideas. Research can play a role. One of the most interesting aspects of institutional change is the interaction, or lack thereof, between government and non-governmental projects. It is often easier for small projects or organisations to innovate, but the resources of the state may be required for extensive implementation of change. There is much to be said for variety and diversity in this regard: many change agents at work can test and modify critical elements in socio-economic restructuring and can reduce the risks which attach to ambitious bureaucratic social reorganization.

Effective flows of information are vital for this process. When government sets for itself ambitious objectives, awkward information or unintended spin-off effects are all too easily neglected. If policy formation is to be well

informed, it is critical that information flows from a wide variety of interests and sources should enter into decision-making. When urbanisation and industrial development are high on the agenda, deliberate efforts to represent the interests of the rural poor are required. When deregulation and privatization are the things politicians are talking about in their sleep, we need to remind ourselves of the purposes of health regulations and environmental protection. When nationalisation of industry comes to be properly considered it will be found to be a blunt instrument of wealth redistribution. When freehold land reform is carefully examined, it turns out to be a minor aspect of an effective rural development strategy. And most critically, democratisation rests not only on the influence of educated elites but fundamentally on a well-informed voting public.

There is no benign hand in the sky drafting the constitutions of post-apartheid organisations. Government is managing a reform programme under pressure from its own constituencies, private sector interests, organised internal resistance, and international sanctions. Business, white agriculture, homeland governments, service organizations and political movements are looking after their own interests in a complex unpredictable strategic environment. Not all the changes which are in progress are desirable or effective, and there are contradictory and irrational forces at work.

There are those who take the view that current reforms constitute a great deception – a shoring up of racial domination in bureaucratic or capitalist complexities. If this is so then the future is bleak indeed, for we will pay the price of institutional restructuring twice over. Much of the evidence that this is not so is conveniently filed in publications of, amongst other, the Institute of Race Relations, and need not be rehearsed here. There are, nonetheless, many signs of ambiguity and confusion in the drift of policy and institutional change. It may be appropriate to conclude with a warning indicated by Nobel Prize-winning economist Kenneth Arrow in a study called **The Limits of Organization** some years ago. When major institutional changes occur, Arrow pointed out, without at the same time the dismantling of out-moded structures of beliefs, behaviour and organization, then society becomes vulnerable to the greatest tragedies of history: unrelenting clashes of ideologies supported by rival rules of accountability, organisations, resources, infrastructure, and perhaps armed forces. □

Note: An earlier version of this paper was presented at the NAFCO Conference held at Mzamba in May 1990.

Economic choices for Post-Apartheid South Africa

(Extracts from an Inaugural Lecture)

INTRODUCTION

A political democracy is close to being achieved in South Africa. Turning the democratic society into an economic success will require the achievement of a high rate of economic growth, and the elimination of the income inequalities which have resulted from 42 years of institutionalized apartheid, and neither of these goals will be easy to attain.

At the present time the economic expectations of blacks have risen, and a failure of political reforms to generate economic gains will be likely to generate a resurgence of political instability, pressing policy makers towards radical economic options. The choice of economic policy will be a crucial element in determining the long run success of political developments, and the options need debating at the professional and at a public level before ill-conceived experiments are allowed to occur. Politicians must also be made to take cognisance of realistic economic policy options, and be made to temper promises which raise expectations but which cannot be fulfilled.

Without question the choice of economic policy for the future South Africa is the most pressing issue confronting the economics profession in South Africa at present, and for this reason I have elected to address it in this inaugural. A single lecture can, however, only set out some of the issues, and the question of land ownership is not discussed at all . . .

ECONOMIC GROWTH AND INEQUALITY IN SOUTH AFRICA

In 1986 the South African economy had a per capita income of \$1 850, which placed it 75th when ranked from lowest to highest of the 120 countries reporting incomes to the World Bank. It fell into the 'upper-middle income' group of semi-industrialized economies (The World Bank, p.225). Many of the middle income economies exhibit very high levels of inequality, and within the group of middle income developing economies South Africa exhibits the greatest degree of income inequality. The very low share of income (estimated at 1,5 per cent) of the bottom 20 per cent of the South African population, the high levels of racial income inequality with white per capita incomes in 1987 being 9,5 times black per capita incomes, and the wide urban-rural income differentials, indicate that poverty will be widespread and concentrated amongst the black population, and that it will be particularly prevalent in informal settlements and in the non-metropolitan regions (McGrath, 1984; Nel, pp. 6-8). The racial income inequalities which characterise the South African economy are quite unacceptable from a moral standpoint and are the basis of demands for redistribution.

RECENT SLOW GROWTH

In the 1980s the growth performance of the South African economy has deteriorated. The real annual compound growth rate of Gross Domestic Product (GDP) slipped to 2,8 per cent in the 1970s and to 1,7 per cent for the period 1980 to 1987. In terms of relative economic performance, the South African economy fell from its moderately successful 7th ranking among 20 developing countries for the period 1960 – 1970, to an indifferent 14th position for the 1970s and 1980s¹ (Moll, p.80). Population growth at 2,8 per cent per annum exceeded the growth of income per head in this later period, so that per capita incomes declined. The aggregate rate of profit in the manufacturing sector had declined since 1948 and severe declines were recorded in the period 1981 – 1986 (Nattrass, pp. 112-120). This deterioration in economic performance can partially be attributed to apartheid, while the rest can be attributed to adverse international developments and inappropriate domestic economic policies.

By moving into a lower growth path by the 1980s, the South African economy's capacity to absorb its rapidly growing labour force was dramatically depressed. Between 1980 and 1989 formal wage employment in the non agricultural sectors increased in total by only 8,5 per cent, adding only 400 000 additional jobs in total, while the labour force grew **annually** by 270 000 – representing in total an addition of 2,4 million people over the period. In developing economies the benefits from economic growth are spread largely through the absorption of the population into modern sector employment, and the stage at which economic inequality begins to narrow rapidly occurs when the demand for labour outstrips supply allowing market forces to drive up real wage rates.

In the South African case, wage increases for black workers in the 1970s were a result of institutional pressures and interventions and a rising skill composition of employment, rather than a result of market scarcity. The low rate of growth of employment in the 1980s has restricted the gains from economic growth to a relatively diminishing share of the population. Further, although there are signs of an emerging integration of the labour market, black workers still remain crowded into lower skilled occupations, while white workers dominate in the managerial, technical and supervisory grades of employment (Knight and McGrath, 1987).

The low growth path of the economy is presently generating very stark economic inequality. For the large proportion of the growing number of the population unable to find modern sector work, subsistence now depends on transfers from employees in the modern sector, state transfer payments (mainly of old age

pensions) and earnings from the informal sector.

This analysis points to the almost paramount importance of achieving economic growth. Economic growth and equity cannot simply be traded-off in the South African case. Accelerating the growth rate of the economy is an absolutely necessary component of a strategy of redistribution. The pressing issue is how can the economy be moved onto a higher growth path which will also rapidly reduce income inequality and poverty. In raising the growth rate lessons can be learnt from the characteristics of the more successful developing economies.

ECONOMIC GROWTH SUCCESS STORIES OF THE 1980s

In the early 1980s, the developing countries faced recession in the industrialized economies and hence a slow expansion of international trade, a substantial decline in primary commodity prices, rising interest rates and debt burdens. There was a wide divergence of economic growth rates among the developing economies and a sharp deceleration of growth of the group as a whole. Only 14 developing countries out of a sample of 80 countries could be classified as fast growing over the period 1981-1985 (United Nations, 1987). Some important characteristics of their performance are summarised in Table 1, with the net energy importers distinguished as a separate category. Table 1 shows:

- (1) The degree of export orientation (Rows 1 and 2) was a major factor differentiating economic performance. The international economic situation of the early 1980s was unfavourable for exports, but the high growth energy-importing economies were much more export orientated than other developing countries in this category. The nature of their export orientation was, however, more significant than its degree. For the fast growing energy importers the importance of manufactures in exports was much larger than for the other energy importers. The export growth of these fast growing economies also allowed them to maintain their import capacity, in strong contrast to the other developing economies. It is worth noting that in the successful East Asian 'super-exporters', governments did not provide more incentives for exporting than for import-substituting production (Krueger, p. 108).
- (2) In terms of domestic economic performance there were also major differences in the ratio of investment to GDP (I/y), the ratio of savings to GDP (S/y), and the rate of inflation between the fast growing countries and the others. (Rows 3 to 5). Notably, for the high growth energy importing countries the average ratio of S/y during 1981-1983 was 21 per cent, compared with an average of 11 per cent for other countries in the group. For the fast growing energy importers this meant a smaller relative gap between I/y, and S/y, enabling them to finance their higher investment ratio with less reliance on foreign saving.
- (3) Rising real interest rates and debt burdens caused major problems for developing countries in the period 1981-1985 (shown in Row 6), but the debt-shock arising from the increase in interest rates hurt the slow-growing developing countries more than it affected the fast growing countries. It appears from the evidence that the success of the countries adopting outward-orientated trade strategies to promote manufactured exports is in part attributable to the export orientation imposing a discipline on the choice of economic

policies (Krueger, p.110).

Table 1. Certain Economic Characteristics of Fast Growing Developing Economies and the South African Economy in the 1980s.

Row		Fast Growing Energy Importers	Other Net Net Energy Importers	SA
1	Exports as a Percentage of GDP (1986)	41	20	33
2	Exports of Manufactures as a Percentage of GDP (1980) ¹	24	4	11
3	Ratio of Gross Fixed Investment to GDP ²	26,1	19,5	20,8
4	Ratio of Gross Savings to GDP ²	21,1	11,2	23,0
5	Rate of Inflation ³	10,8	34,8	16,0
6	Debt to GNP Ratio ⁴	21,9	50,3	24,0

Notes

1. RSA 1985, Others 1980.
2. RSA Average 1984-1988, Others Average 1981-1985.
3. RSA 1984-1988, Others 1981-1985.
4. RSA 1988, Others 1984.

Sources

United Nations, 1987, Tables 2,3,4 and 5.
SA Reserve Bank, Quarterly Bulletin, Pretoria: June 1987, June 1990.

GROWTH POLICIES FOR SOUTH AFRICA

Several official reports have recognised that the impetus to growth of the South African economy provided by import substitution has been exhausted. Heavy reliance on gold (and primary exports) is also now seriously destabilizing the economy. Future economic growth for South Africa requires that exports must be diversified into manufacturing and expanded. In RSA in the 1970s, export incentives were introduced for the manufacturing sector, while the policy of import substitution was continued through the structure of import tariffs. Recently Professor Merle Holden's research has revealed that this protection given to imports has been the equivalent of a net 34 per cent implicit tax on exports (when gold production is excluded from the analysis) (Holden 1990a). Holden's research also shows that over the period from the mid 1970s to 1983 the relative price of exports to non-tradable goods declined, and that the overvalued real exchange rate of the Rand severely discouraged production for the export market (Holden 1990b). It is not surprising therefore that manufactured exports have been slow to perform.

Moves to promote exports of manufactured goods have been made with the recent General Export Incentive Scheme. However, the excessive protection of the domestic South African market must also be addressed if successful export led growth is to be achieved. The

scrapping of sanctions and the opening of markets in Africa will give the ideal opportunity for a push into export oriented growth of manufactured goods if the incentives are correctly structured by government. Even if other strategies provide a simultaneous impetus for growth (e.g. inward industrialisation to be discussed below), a successful export performance will be a necessary condition for growth in the long run, given the high propensity to import of the South African economy.

On the level of macroeconomic performance the need to raise the level of investment is clear for South Africa as it is a necessary condition for higher growth of output at a relatively constant capital/output ratio. For investment a climate of stability and confidence must prevail and there must be a commitment on the part of government to policies to foster economic growth. Prospects of lowering the capital/output and capital/labour ratios are not good in the medium term. The economy does not have access to large numbers of small entrepreneurs in labour intensive ventures who can rapidly begin to play a central role in the growth process.² Also the international and the South African experience shows that excessive ongoing use cannot be made of foreign savings. Borrowing from abroad can, however, provide the cushioning necessary for reviving a process of economic growth. Foreign borrowing can provide breathing space to revive domestic investment before domestic savings recover.³

Rapid export oriented growth will, however, have an adverse effect on the income distribution, in so far as it widens income inequalities between those employed in the modern sector and the poor.

The view has often been expressed in South Africa that the return to a path of rapid economic growth requires a reduction of the size of the public sector. A perusal of the intercountry evidence shows, however, that there is no significant correlation between the growth of GDP and the size of the public sector (The World Bank, p.52). Increased government expenditures will be necessary for the redistribution of social services in South Africa and will require an increase in the share of government expenditure in GDP. This expansion in spending will increase the size of the public sector deficit. How this is reconciled with broader macroeconomic policy, depends in part on the size of the deficit, the rate at which taxes increase, and the financing of the deficit. These issues must be carefully considered in relation to future policy choices, for the question of the sustainability of fiscal policy is an important factor in influencing the level of private sector investment, and ultimately the attainment of long run economic growth.

REDISTRIBUTION WITH GROWTH

Renewed investor confidence (once political stability is obtained), export orientated trade policies, and the relaxation of sanctions could lift the economy to a higher growth path, but the gains from high growth rates of employment will not trickle down immediately to the poor. Growth promoting policies must be complemented by a redistribution with growth strategy.

A redistribution with growth policy can direct some of the gains from growth to the lower income target groups using production sector and transfer strategies (McGrath, 1990, p. 104). In South Africa redressing the great shortfalls to blacks in pensions, educational, health, and

housing services can provide the focus of such a policy of 'redistribution with growth'. A programme to increase agricultural output must form an integral part of such a policy. A move to deregulate the informal sector and small businesses and provide credit to small business has already begun and will also be an important component of the strategy.

PENSIONS, HOUSING AND EDUCATION

A rapid way of transferring purchasing power to the poorest black households and of attacking poverty will be to increase old age pensions. Establishing parity for all in the eligibility and amount of pensions would represent an important political gesture. A policy of provision of basic services and infrastructure in informal settlements has made a belated start and the new government can accelerate this programme. Government can also increase the supply of housing or subsidize housing loans. Such a policy would in effect be an inward industrialization policy in which housing and construction are the lead sectors. The new government should provide finance or subsidize loans, thereby building on the framework presently being established by the Urban Foundation and the Independent Housing Trust, rather than undertaking the construction itself. Where contracts are awarded, small businesses using labour intensive methods should be favoured, and regulations on the manufacturing of housing materials should be kept to a minimum to develop backward linkages into the informal sector. As an integral part of the programme a labour intensive public works programme could be used to develop infrastructure, similar to the programme in the 1930s to solve the poor-white problem. This public works programme should also be implemented in rural areas. The expenditures made in implementing the inward industrialization programme will have a low propensity to import, a low demand for skilled labour and a low capital/labour ratio, and the programme could provide increased employment on a vast scale. However, it would require good organization and planning as well as a sustained political commitment.

Dramatic increases in the educational attainment of the black population are needed if skill shortages are not going to become a major bottleneck to growth. Increasing the quantity and quality of black education will be politically imperative and will be a crucial element in the growth strategy.

COST OF ELIMINATING INEQUALITIES

Professor van der Berg has estimated the cost of eliminating inequalities under the extreme assumptions that racial gaps in current expenditure per head of population on pensions, education and health services are eliminated in a single year by raising standards to the level supplied to whites, and racial backlogs in the supply of housing to the poor are eliminated over a decade. To achieve parity at this rate social spending in these areas must increase annually to over 35 per cent of the 1986 level of GDP. The level of government expenditure, holding other expenditures constant, would have to rise to over 50 per cent of GDP. This is simply not attainable (Van der Berg, pp. 72-86).

However, less ambitious programmes can be introduced, and levels of expenditure can be held back by requiring those with higher incomes to pay for the elements of

services which are not essential, or for the supply of services far above the average level.⁴ Charging for higher quality services will in itself significantly redistribute real incomes and patterns of demand for educational and health services. There is also scope over time for curtailing (and reducing) the growth of government expenditure on administration and defence, allowing for a growth in necessary economic services without any other additional increases in the level of total government expenditure. Realistically my estimates show that an egalitarian supply of educational and health services, basic housing provided over a decade, and pensions can be attained by increasing total government expenditure by approximately 35 per cent above its present level.

SIMULATION OF GROWTH PATH WITH REDISTRIBUTIVE GOVERNMENT EXPENDITURES.

A simulation model can show some of the macroeconomic constraints on growth policies consistent with rising government expenditures. We assume a growth rate of 5 per cent of GDP on a base year of 1989. The simulation is conducted in constant 1989 prices. The necessary level of investment is determined from historical data, consumption is assumed to rise in 1990 by the full increase in expenditures on services and pensions and hereafter at 6,5 per cent per annum; the value of exports of minerals and agricultural goods remains fixed, but exports of manufactured goods increase at 7 per cent per annum for the first 5 years (sanctions are assumed to have been ended), and 10 per cent per annum thereafter. Imports are a constant 30 per cent of GDP. Government expenditure is assumed to be increased by 7 per cent per annum for a period of 5 years, and the full increase is allocated to the supply of education, health, housing and pensions; increased in the supply of the necessary economic services are assumed to be found by reducing other expenditures. The tax regime is unaltered and government revenue grows at 5 per cent per annum and the exchange rate of the Rand is assumed to be fixed. Table 2 shows the path of the major macroeconomic variables through the year 2000.

Table 2 Simulation of the Growth Path of the South African Economy 1990-2000 under the assumption of a Post-Apartheid Regime.

Row	PER CENT PER ANNUM	1990	1994	2000	
1	Growth rate of: Gross Domestic Product (Y)	5	5	5	
2	Investment (I)	16	5	5	
3	Government Expenditures (G)	7	7	0	
4	Exports (X)	2,3	4,3	5,3	
5	Gross domestic Expenditure	11,3	4,6	4,9	
ANNUAL VALUE (CONSTANT 1989 PRICES)					
6	Y	232676	244309	296960	397955
7	$(G_1 - G_{1989})$	-	4563	23238	26238
8	$(G - Taxes)/Y$	1,6	2,6	4,4	-3,4
9	G/Y	28	29	31	21
10	Deficit on Current Account of Balance of Payments	4097	-5499	-14038	-20726
11	Foreign Debt/Y	24	25	35	50

The significant features shown in Table 2 are:

- (1) Despite the rapid rise in government expenditure the share of government int GDP does not rise to an unacceptably high level, not exceeding 31 per cent (shown in Row 9), and the ratio of the deficit before borrowing to GDP (Row 8) is also not a problem rising to 4,4 per cent in 1994.
- (2) The increased level of expenditure needed to bring about a substantial level of equality in social services is attained within 5 years (Rows 3 and 7).
- (3) The current account of the balance of payments is in deficit as soon as economic growth accelerates (Row 10) and foreign borrowing is needed to make up the shortfall. Huge capital inflows are required in the first few years, and the ratio of foreign debt rapidly rises from its present level of 24 per cent to over 35 per cent of GDP (Row 11), but even this proportion is well below the current levels of foreign debt of many semi-industrialized economies. A 'marshall-aid' plan without an obligation to pay back grants would be most desirable but is not absolutely necessary. Without the capital inflows however, the growth process has to be halted quite soon because of balance of payments problems, even if the Rand inevitably depreciates.
- (4) Through time the propensity to save falls as a consequence of the assumptions of the model. This draws attention to the need for policies to increase domestic savings, hold back money wage increases, and limit the growth of other areas of government expenditure. The simulation does, however, show that the growth rate of the economy and government expenditure can be stimulated dramatically without the burden of foreign debt becoming intolerable in the medium term.
- (5) At the growth rate envisaged sectoral bottlenecks, rising food prices, and skill shortages may well cause inflation and defeat the goals of the policies. The more time the economy is given to grow onto its higher path, while at the same time expanding the supply of skills, exports and food, the greater will be the economic chances of success. This also means that it will be preferable to defer increases in government expenditures on social services until the growth process is well underway, but this level of restraint may not be politically feasible.

Fortunately the involvement of the IMF in granting loans to South Africa, which is very likely under a new government, will require a commitment to monetary and fiscal discipline. If the policies outlined above are to succeed in South Africa, strict fiscal and monetary discipline will have to be applied and real interest rates cannot be allowed to become negative because this would discourage the growth of personal savings.

The simulation which was outlined allowed very rapid growth in domestic expenditure, arising both from renewed investment, increased consumer demand and government expenditures for redistribution. A slowing of the initial pace of redistributive expenditures, for say the first 5 years of economic growth, would impose much smaller strains on demand and the balance of payments.

STATIC REDISTRIBUTION

In the analysis thus far we assumed that the tax regime had not been changed and that policies for asset

redistribution were not implemented. Pressures are likely for higher rates of taxation of companies and high income earners and for asset redistribution

TAXATION OF INDIVIDUALS AND COMPANIES

Policies of static redistribution through the tax system appear at first sight to offer possibilities for redistribution. There is, however, much evidence showing that the tax system is a weak redistributive device and that government spending can have a greater impact. Many studies have shown that tax systems often lead to an incidence which is roughly proportional to income and that the redistributive power of taxation is small and can be potentially destructive of economic growth (McGrath 1990, p. 102).

In South Africa the Margo Commission recently investigated the tax system and reported in 1987 (Margo Commission). Its recommendations were in the main in line with trends in tax policy internationally, e.g. recommending a shift from sales taxation to value added taxation, a simplification of the tax system of individuals with fewer marginal rates, exemption of dividends from personal income taxation, and neutrality between the top marginal rate applicable to individuals and companies. Government has agreed to implement many of the Margo proposals, and this policy should be pursued as the likelihood of improving the income distribution by tinkering with the tax system does not appear to be great.

The prescription that the tax system should not be made more progressive to improve the distribution of incomes may seem extremely conservative. However, it must be seen against the changed distribution of the benefits of government expenditures which have been discussed above – as white households will be required to pay a much large proportion of the cost of education, health and many other services, and blacks will receive a much greater level of service. Set against an unchanged tax burden, these changes will make the tax and expenditure system as a whole dramatically more progressive.

The ownership of private wealth and the income from that wealth is an important influence on the unequal racial distribution of incomes, and will be a force working against equalizing tendencies in the labour market, as savings do not become significant until relatively high levels of income have been attained (McGrath, 1982, pp. 46-49). The ownership of private wealth in South Africa also reflects accumulation from the historical inequalities of apartheid.

Policies which might be contemplated to redistribute privately owned wealth, following the lines suggested by Meade for the UK, might for example include:

- (i) a radical reform of death duties, turning them into a progressive tax dependent upon the total amount which any beneficiary had received by way of gifts or inheritance
- (ii) the extension of the death duties to cover gifts *inter vivos*
- (iii) the introduction of a progressive annual tax assessed on capital wealth (Meade, pp. 75-76).

Programmes of wealth taxation have rarely been implemented with any success. One problem for taxing net wealth is the international mobility of financial capital. Another is that the base of wealth taxes does not relate to actual transactions. How is the annual value of net wealth

calculated? Yet another problem is that wealth taxes can distort investment away from productive assets. Such practical considerations have resulted in very few countries introducing taxes on the value of the net wealth of the personal sector.

The Margo Commission was against all forms of wealth taxation in South Africa (Margo Commission, p. 319). It did, however, propose an estate duty at a flat rate of 15 per cent to be levied on the dutiable value of deceased estates which exceeded R250 000 and a 15 per cent flat rate capital transfer tax. Government implemented these proposals but increased the exempted dutiable value of deceased estates to R1m, thereby effectively abolishing the estate duty. Estate duties imposed at a moderate rate are unlikely to have adverse economic effects and will not significantly affect patterns of savings and investments. Their potential for raising revenue is limited but there is a case for a reconsideration of the estate duty.

ASSET REDISTRIBUTION: SOCIALISM AND NATIONALISATION

Radical prescriptions for asset redistribution include full Central Economic Planning and socialism; nationalization of the commanding heights of the economy; the dissolution of the larger South African conglomerates; and payment of compensation for historical economic injustices. The widely acknowledged failures of socialism in Europe and Africa should be adequate evidence that such experiments should be ruled out completely from the options for South Africa. A strong commitment to the market system and private enterprise is needed to produce an efficient economic system in the post-apartheid era.

A less radical alternative, still socialist in flavour, is to nationalize the 'commanding heights of the economy', interpreted for RSA as the largest six conglomerates. On the employment front skill shortages and education will increasingly become the most important constraints on black advancement within the internal labour market of large companies – nationalization *per se* will not solve this problem. A preferential treatment of blacks in the labour queue of 'the commanding heights' will also not improve the incomes of the poor and may indeed worsen the distribution of income by simply increasing the incomes of blacks with skills and with access to patronage.

If the purpose of the nationalization is to increase government revenue, the surplus generated in the 'commanding heights' can be extracted as efficiently by taxation, as has already been shown in the case of the fold mines by the present government. Nationalization, which replaces corporate management by public sector bureaucracy with a 'soft budget constraint', will result in a drop in efficiency. Threats of nationalization will depress confidence and investment and produce capital flight. The net consequences of nationalization will surely be adverse in terms of the needs of economic growth and income distribution.

CONGLOMERATES

The next radical prescription to be discussed, recently made by Mr Stephen Gelb, is to break up the conglomerate ownership of industry in South Africa.⁵ The proposal arises from Gelb's analysis of the low levels of investment in South Africa and its increasingly capital intensive nature, which he attributes to the financial

linkages which exist within the conglomerates themselves and their linkages with financial institutions. Therefore, the argument goes that dissolution of the conglomerates will be favourable for investment and which can also be directed towards less capital intensive enterprises.

A counter-argument which in my view is just as plausible, is that government might find the existence of the larger conglomerates convenient, as a way of implementing its policies. An alliance with them, through government representations on their boards, would enable the state to exercise enormous muscle in influencing patterns of investment. Furthermore, the large groups may be necessary for a major dive into international markets for manufactured exports. Certainly the dissolution of the conglomerates would not increase competition in the industrial sectors where often the small South African market and the need for economies of scale cause substantial concentration to occur at the industry level.

An alternative view on the conglomerates is that they can be made into a very efficient channel for the financing of industry and that they should be used constructively for encouraging investment, building on existing institutions, rather than trying to develop new ones. One possibility might be to encourage them to stimulate subcontracting to small business, using their financial muscle to finance such ventures. The post-apartheid government might even require the conglomerates to allocate a proportion of their equity to this goal. Such a strategy would encourage small business and be good for income distribution, while having a beneficial effect on employment because of differences in wages between the formal and less formal sectors in industry.

At present socialist rhetoric is causing great uncertainty, undoubtedly causing some capital outflows and retarding potential capital inflows and investment. This uncertainty will continue until the intentions of the major political actors about economic policy have been clearly spelled out, and have credibility.

REPARATIONS

Reparations have also been mentioned although to my knowledge the amount to be paid has never been specified, nor has the theoretical basis for determining the claim been explained. How much compensation could be demanded? If we assume that all racial groups had been able to contribute equally to the economy in the absence of apartheid, then one possible way of estimating the income loss to blacks is as the difference between their actual share of income and their expected share, i.e. their share of population. The reparations estimated in this way will be may overstated, and the implicit assumptions made are grounds for intense argument. However, if we accept the procedure as a basis for valuation, then it can be estimated that between 1948 and 1987 that there was a shortfall in black incomes of some R2500 billion when expressed in 1989 prices – which is more than 11 times the 1989 level of the GDP.

The extraction of reparations on this scale from companies and white households, even if the reparations were spread over the next half century, would have a catastrophic effect on investment, entrepreneurship, and savings, the supply of skilled white workers, the managerial class, and economic growth and ultimately the

capacity to pay the reparations and is not feasible. The issue is raised in order to stress the need to focus economic policy on creative but workable solutions directed towards improving future economic welfare, rather than dwelling on past injustices which cannot be remedied.

WAGE POLICY

Economic analysis predicts that where redistributive measures simply boost nominal incomes, inflation and balance of payments crises will rapidly result. Further, large real wage increases can only reach the segment of the population working in the modern sector, bypassing groups in poverty, and possibly exacerbating the problem of creating employment growth by forcing firms to substitute capital for labour.

The policies used by white workers to improve their economic status after the 1930s, whereby skilled labour was kept scarce, and unskilled white wages were raised by government policy, will be quite inappropriate in a new South Africa. The ends of economic growth and redistribution through the growth process will be best served if labour markets are allowed to function as efficiently as possible. Minimum wages above the market clearing level will lead to the creation of an urban elite in paid employment, sheltered from wage competition from the unemployed, and will bias the economy towards capital using processes. Government will have to be especially tough with the civil service which will seek economic rents in the form of higher wages for political support as rapid real wage growth in the government sector will rapidly erode the possibility of long term economic growth. In the government sector the payment of wages related to market rates could lower the cost of many services supplied. A successful redistribution with growth strategy will require standards of industrial and wage discipline which preclude the political tactics which the unions have developed in their struggle against apartheid, e.g. stay-aways, ongoing industrial sabotage, and political collective bargaining. □

NOTES

1. Using the rankings of the United Nations International Comparison Project.
2. The position is similar to the case of Korea, where there was a shortage of managers and entrepreneurs willing to undertake the development of export related projects. By contrast the Taiwanese economy was able to use the potential of a large number of entrepreneurs (Park, p. 118-120).
3. For example, in Korea during 1980-84, Turkey during 1980-82, and Indonesia during the mid-1960s generous capital inflows were received as part of their adjustment process to allow for economic growth from a debt crisis (Collins, pp. 105-106).
4. On average whites would still receive a 60 per cent subsidy on the cost of education and health services.
5. This proposal was made in an address by Stephen Gelb on 'Economic Structures for the Post-Apartheid South Africa', Natal Branch of the Economic Society of South Africa, Durban, 5 June 1990.

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Economic Policy, Growth and Equity.

Democratic Party Economic Policy Manifesto

"A SOCIAL MARKET ECONOMY"

The Democratic Party seeks to establish a Social Market Economy which respects the principles of private ownership and incentives and which offers rewards for entrepreneurs.

It recognises the existence of unacceptable wealth, income, opportunity and skills gaps and the necessity of giving urgent attention thereto, and to the elimination of racial discrimination in the provision of social and State services.

- The objective of the policy is to eliminate poverty and provide adequate rising living standards for all.

The Party therefore commits itself to the fundamentals of a social Market Economy.

1. Political Freedom is an essential ingredient for the operation of a just economic system.
2. There must be true equality of opportunity for all citizens including that of acquiring and owning property, so that they may enter the economic system on an equal footing. This will entail:

- (a) major development programmes to address existing poverty, inequality and distortions in the economy;
 - (b) the absence of discriminatory laws and practices on the one hand and the provision of non-discriminatory State social services;
 - (c) making racial, religious, language and similar constraints on economic activities unconstitutional;
 - (d) the provision of equal access to:
 - (i) education of the same quality for all, as well as the opportunity of education for disadvantaged adults;
 - (ii) reasonable health facilities;
 - (e) improving the quality of life so as to provide the basis for stability.
3. The wide gaps in income and wealth in South Africa require special corrective action to enable those in a disadvantaged position to better their situation. This aim can best be achieved by education, training and, where appropriate, corrective action in respect of such fields as land resettlement, housing and other socially

orientated services. Steps such as vocational training need to be undertaken on a major scale to provide an answer to the frustration of the generation which has had inadequate education and training.

4. The extreme poverty of certain regions requires special development activity in these areas, and to create opportunities for work, to reduce deprivation and to improve the quality of life are urgent priorities. Inward industrialisation with adequate State input, but designed to encourage private initiative, is an essential ingredient of policies to deal with these conditions, to create stability and to ensure greater economic growth.
5. Continued economic development inevitably implies increasing levels of urbanisation. It is important that provision be made for this process, that an environment be created in which both the public and private sectors contribute, in which the State provides infrastructure and assists with the provision of land and housing for the needy, and where individuals are helped to house themselves.
6. Before wealth can be consumed or redistributed it must be created. Policies should, therefore, be directed to encourage wealth creation by the individual. This entails positive policies for economic growth in excess of population growth, particularly in those sectors of the economy which alleviate the lot of the impoverished and act as a mechanism to reduce income and wealth gaps. Encouragement must be given to the starting and successful continuation of new, particularly small, business and industrial activity and to make access to skills and capital more readily available.
7. Nationalisation is rejected as a general rule. However, the State has a role in the provision of necessary services which private enterprise cannot or does not adequately provide.
8. Adequate planning is required to deal with society's future needs. However, the State's functions in this field should be essentially indicative, not compulsive. A command economy is rejected in favour of a Social Market Economy.
9. As the living standards of most South Africans will in the main be determined by their earnings from wage labour, it is essential that the concept of economic justice is also extended into this area. This means:
 - 9.1 The recognition of
 - (a) The individual's basic right to work. Therefore all possible steps must be taken to give every person the opportunity to work. Where jobs are not available, then the State should use fiscal, monetary and other measures to assist in job creation.
 - (b) The principle of equal pay for work of equal value should be fully accepted.There is also a need for a logical evaluation of job responsibility and the determination of a just level (or range) of remuneration.
 - 9.2 The establishment of a relationship between capital, management and labour based upon the recognition that each has an interest in the welfare of the others. Processes towards industrial democracy should be encouraged. As many as possible should

share in the ownership of the means of production, and to this end, the ownership of shares by workers and the public at large should be facilitated. Opportunity to attain management positions must be created.

10. A market system should operate to achieve the goals of productivity and efficiency and give incentive, but it should do so within the constraints of social conscience and the requirements of a healthy environment.
11. A concerned society provides for those who cannot do so adequately for themselves, whether by reason of sickness, disability, advanced age or inability to obtain employment. While encouragement should be given so that wherever possible individuals make their own plans, the State must play its role in providing for those who cannot.
12. There must be equality of bargaining power in the market place to prevent exploitation, injustice and abuse. This entails.
 - (a) rules of conduct prescribed by law which may be necessary to prevent the exploitation of consumer and worker;
 - (b) competition that is fair and uninhibited by cartel, monopoly or other abuse of power concentrations;
 - (c) public scrutiny of the exercise of concentrated economic power, in the same manner as political power is subject to scrutiny, to prevent abuses.
13. The State obtains its funds from taxation, borrowing and income from certain activities conducted by it and, in turn, performs the function of re-allocating the resources so obtained. Taxation should be applied in such a manner as to maintain incentive on the one hand, and on the other to enable the State machinery to function, and to provide those non-discriminatory social services which are necessary.
14. It is essential that the necessary activities of the State be conducted in as economical a manner as possible. Therefore, all government expenditure must be closely monitored and reduced wherever this is feasible. The aim should be to hold the share of the public sector in the total economy to as low a percentage as possible, so as to allow the productive private sector to develop optimally.
15. The State's fiscal and monetary policies should, in particular, be directed to:
 - (a) the creation of employment opportunities;
 - (b) the retention of the internal purchasing value of currency and the appropriate relationship with other currencies in the international markets;
 - (c) the maintenance of economic stability;
 - (d) the increase of living standards in both relative and absolute terms;
 - (e) an independent central bank, free of political interference.
16. The country should participate in a Southern African Economic Community for the benefit of all its members without affecting their national integrity.
17. A sound economic system can only flourish in a free and democratic society in which the human rights of all are protected and safeguarded. An economy will flourish when people feel free and are secure. Freedom includes an absence of poverty. □

Inward industrialisation: How do we get it going?

South Africa finds itself in an unenviable position at present. Economic is low and erratic, and appears unable to keep up with population, resulting in declining per capita income. Unemployment is high and rising, and formal-sector employment has lagged far behind population growth for the last fifteen years. Despite this, inflation remains stubbornly high and far in excess of that experienced by our main trading partners. Tax rates are perceived to be too high, and personal savings too low, having been on a declining trend for many years. Rural poverty and high population growth rates have meant a high rate of urbanisation which has accelerated significantly since the abolition of influx control. The consequence has been a huge and growing backlog of formal housing accompanied by mushrooming squatter/shack settlements on the peripheries of cities, as well as within many existing formal black residential areas.

It is trite to say that the only long-term solution is economic growth with the creation of jobs on a massive scale. Once employment has grown to the point where labour shortages are being felt, competition will see to it that wage levels rise and productivity improvement takes place.

Industrial development in any country may be generated by one or more of three processes:

- a growing domestic market;
- export promotion; and
- import substitution.

The term "inward industrialisation" was used in the Organisation of African Unity's 'Lagos Plan of Action' in 1980, and was then applied to South Africa by Lombard et al (1985). Zarenda (1989) has attempted to define it and place it within its theoretical context. Lee (1987) defines it as "domestically generated growth, based upon supplying basic consumer products (e.g., clothing shoes, furniture, basic foodstuffs) and facilities (e.g., low-cost housing) to the rapidly urbanising Black population, with the increasing labour force coming from the rural areas simultaneously finding employment in these existing industries". Inward industrialisation therefore is a variant of the first category above and, as such, is nothing new. What is new, apart from the term itself, is the realisation in various influential quarters (including government) that there is a large potential African consumer market and that the exploitation of this potential offers a tremendous opportunity for further industrial growth. This point has been made frequently over the years, but with little effect in the face of government policies of the day.

The political and social influences on the economy in the

past have been such that only a relatively small portion of the African population has been able to join the mass consumer society. As a consequence, this market is, for many products, probably limited to no more than about 25 per cent of all households. The possibility of incorporating the remaining 75 per cent is what gives South Africa an advantage in terms of its industrial growth potential over many developed countries which face virtually stagnant domestic markets and whose industrial expansion is necessarily dependent on export markets.

POTENTIAL

Thus, there is a huge potential market for basic goods together with the labour force required to meet it. The key question is how to actualise this potential. A study of market processes in a free-market economy would suggest that this would happen spontaneously, along the lines of Say's Law, with supply creating its own demand. However, this is patently not happening, with soaring unemployment, poverty and the accompanying crime, as people struggle to survive.

Ideally, with no foreign economic threats or pressures and no internal tension, investor confidence would be high, rapid economic growth would create jobs, and the shortage of Whites to fill skilled posts would necessitate further African advancement up the occupational ladder. This would all lead to an increase in African spending power and hence to growth in domestic demand for goods and services. Further industrialisation would occur as a result of the operation of all of the processes listed earlier.

However, given the current international and internal political climate, there are difficulties:

- The worldwide trend towards increased protectionism together with the imposition of trade sanctions and consumer boycotts against South Africa, limits the scope for export-led growth despite the low exchange rate.
- Import substitution has tended to be highly capital intensive, and the country's imports in any case consist mainly of machinery, transport equipment and industrial chemicals, local production of which would be uneconomic given the size of local demand and the consequent absence of economies of scale.
- Private (local and foreign) investor confidence is at a low level.

In addition there are numerous rules, regulations and standards, as well as institutional structures, which inhibit the operation of the free market, and it is difficult for budding entrepreneurs to gain a foothold.

MARKET DEREGULATION

While free marketeers maintain that all that is necessary is to deregulate the market, it is by no means clear that this is readily achievable. It is undoubtedly true that the regulatory institutional framework would be streamlined, but it must be borne in mind that every regulation/institution was put in place for a reason, and even if one discounts the argument that they serve the public good (which many undoubtedly do), behind most of them lie vested interests which would have to be ignored or won over before changes could be effected. Even if it were possible to free up the market effectively, it is by no means clear that this would produce the desired results except in the extremely long run, given the situation in world markets, lack of investor confidence, etc. as already mentioned.

Where then is the impetus to inward industrialisation, and hence growth, to come from? The key to this is rapid urbanisation which, far from being an insoluble problem, provides a signal opportunity. The African population has experienced rapid urbanisation since World War II, and there is little doubt that this expanding urban market has had much to do with South Africa's manufacturing development. Some 40 per cent of the African population resided in urban areas (defined to include informal settlements) in 1980, and various projections indicate that this should increase to 60-65 per cent by 2000. This implies that the urban African population will grow at a mean annual rate of about 4.4 per cent and that it will more than double in absolute numbers between 1980-2000.

The market potential among urban Africans could therefore more than double over this period. However, the incremental population cannot become consumers unless they are in receipt of incomes, and this means having jobs. The country has experienced low rates of economic growth for most of the last 12 years, and manufacturing employed fewer people at the end of 1985 than in 1976.

COLOMBIA

Examination of the situation in which Colombia found itself in the 1960's and the solution it tried in the next decade is instructive in suggesting a way in which the process of inward industrialisation can be triggered. Smith (1990) points out that Colombia shared many of South Africa's current problems:

- high population growth with a rapidly-growing economically-active population;
- wide income discrepancies between an impoverished rural sector and a wealthier urban sector, which resulted in high rates of urbanisation, and a concomitant shortage of housing;
- high and rising unemployment accompanied by high inflation, low economic growth and periodic balance-of-payment crises;
- a policy of growth through import substitution which had run out of steam owing to the exhaustion of 'easy' opportunities;
- a low propensity to save.

Since 1971, Colombia has implemented a unique development strategy. This has used rapid urbanisation as the tool of development planning and has been based on the idea of construction as the "leading sector" for economic growth (Currie 1974). There was a large

housing backlog in urban areas, and the satisfaction of this demand, it was argued, could have significant multiplier effects in the economy.

The advantages of using the construction sector as the linchpin of economic growth in Colombia were:

- it served internal demand and therefore made the economy less vulnerable to external forces (such as fluctuating world commodity prices);
- it used domestic raw materials and therefore put no pressure on scarce foreign-exchange resources;
- spillover benefits or urbanisation included increased pressure for land consolidation and for large-scale farming using modern technology; and
- construction was labour intensive and created new urban jobs which required little skill or education.

In order to satisfy the latent mass demand for housing in Colombia, a system was designed to encourage personal savings and to channel those savings into mortgages and construction. The system was based on cost-of-living adjustments in terms of which savings linked to construction were inflation-indexed and thus yielded a positive real return unmatched by other financial assets (personal savings previously had been discouraged by negative interest rates). Special private institutions were established for this purpose, and were required by statute to devote at least 50 per cent of their funds to middle- and lower-income groups.

EFFECTS AND WEAKNESSES

The Colombian strategy had immediate effects:

- Housing finance expanded rapidly, new building loans doubling in two years.
- New building activity boomed.
- Employment in the construction sector expanded by 44 per cent in two years, while the employment multiplier effects were such that 1 million new jobs were created in four years with a concomitant decline (of almost 50 per cent) in the unemployment rate.
- The national economic growth rate reached 7-8 per cent per annum.

The programme, however, also had a number of weaknesses.

- It appeared to have contributed to inflationary pressures.
- It benefited mainly the middle- and upper-income groups rather than the poor. This was largely because the planners, assuming that incomes would rise sufficiently to enable the poor to live in conventional housing excluded site-and-service and self-help housing. It is now conceded that this was a mistake and that site-and-service schemes, together with State provision of infrastructure and community services, would have been more beneficial to the poor.

- Although it reduced unemployment to the extent that this was no longer a significant urban problem, many of the jobs were low-income and low-productivity ones centred on the informal sector, handicrafts and domestic service. This criticism would appear to be unfair in that key aspects of the policy were reversed only four years after implementation (see Smith 1990), resulting in a significant drop in real growth. Had this not happened, it could have been expected that the continuing high growth rate would have resulted in labour shortages, with the ensuing competition leading to wage rises which would then have forced employers to introduce productivity improvements

to justify the new level of wages and so on. Thus, the real criticism should be directed at the premature reversal of key aspects of the policy.

“LEADING SECTOR”

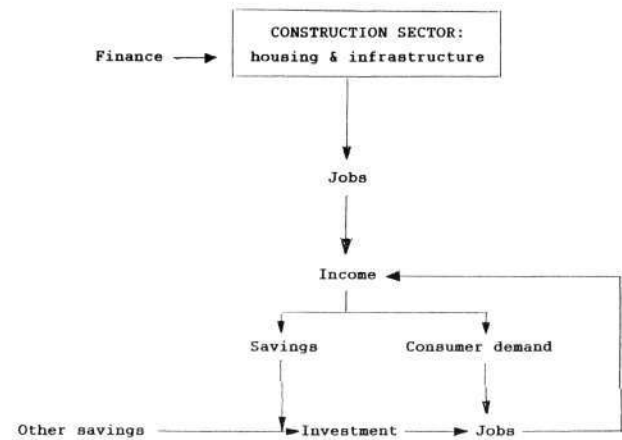
It appears that the “leading sector” concept, using rapid urbanisation and the construction industry as a trigger (as illustrated in the diagram), could be applied in South Africa with the same advantages as those listed above. The construction sector has a low propensity to import; the possibility of improving homeland agriculture along similar lines as mentioned above is apparent; the production of basic goods is less import intensive and more labour-intensive than that of more sophisticated goods; and sectors such as building and clothing are competitive and offer considerable scope for small firms and African entrepreneurs with consequent favourable effects on income distribution.

The idea is that housing and physical infrastructure (streets, water, sanitation, power, schools, clinics, recreation and other social services) would be provided to meet the needs of the rapidly urbanising African population. A number of issues arise out of this proposition.

How is the expenditure necessary to set the process in motion to be funded? Higher government spending can be financed by raising taxes, increased borrowing or printing money. Lee (1987) appears correct in advocating a policy of higher borrowing but this of course implies a higher rate of deficit financing than at present. Recent Budgets have been based on a borrowing requirement of no more than 3 per cent of GDP, but Rees (1986) regards this as ultra-conservative; at the current rate of inflation the nominal deficit is, in fact, a real surplus, and the consequences of this policy is that the balance of revenue has to be derived from very high taxation rates. Presumably the private sector, notably financial institutions, would assist in the funding and participate in housing development.

What is the job-creation potential within the construction sector itself of alternative housing strategies? For example, the eight housing-delivery systems examined by the NBRI for the Private Sector Council need to be compared. How many jobs could each generate given the number of dwellings required, and what are the funding implications? Would the construction be undertaken by large firms, small African builders, etc., and is there any scope for sub-contracting from large to small firms? What average incomes would be earned under each scheme? This is an important point as the multiplier effects will depend on elasticity of demand for individual goods, and this elasticity in turn will depend on income earned.

As the diagram illustrates, the provision of housing and infrastructure generates additional jobs and hence additional income in the economy. We may hypothesise that some of this income will be saved and some will be spent.



CONSUMER EXPENDITURE

With regard to consumer expenditure, it is important to assess the likely pattern so as to obtain an idea of the sectoral breakdown of manufacturing and other (primary and tertiary) jobs which might be created, i.e., what is the elasticity of demand for what items? Lombard et al (1985) mention that there would be a growing demand for foodstuffs, clothing, textiles, footwear and building materials, but presumably the demand for more sophisticated goods would also increase. The Bureau of Market Research reports would provide a guide. Is the pattern of consumer expenditure such as to be able to sustain rapid industrialisation? And will this be in large, medium or small firms or in the informal sector?

With regard to savings, what is the propensity to save of the new income earners? Their savings, together with savings elsewhere in the economy, would have to provide the investment funds required to expand output to meet these new consumer demands. It is important that the investment requirements should be met as far as possible by new savings rather than by diversion of existing savings from other avenues of investment. Leaving aside the question of efficiency of investment, the only way ultimately to increase growth is to increase investment at the expense of consumption. Lee (1987) argues that low-income earners have a high propensity to consume, and that therefore little personal savings will accrue and the financing problem in the economy will be exacerbated. Improved overall incentives to saving thus appear critical. It seems important to stimulate new savings at the expense of consumption by middle- and higher-income groups, and ways of encouraging such savings require attention.

The Colombian experience cited earlier suggests that the interest- rate elasticity of private savings may be surprisingly large, and that the creation of special savings instruments which give a positive real rate of return **after tax** may generate substantial sums. Even though real interest rates in South Africa are currently positive and likely to remain so, after-tax returns are negative for middle- and upper-income earners. This has been so for many years, and is no doubt one of the major contributors to the decline in personal savings.

INVESTMENT

With regard to investment, how much excess capacity exists in manufacturing industry at present and how much new capital investment would be required, and would such investment be diverted from other activities and with

what net effect on employment, e.g., if investment is diverted from the armaments industry, what would be the overall result?

The expansion of manufacturing output to satisfy consumer demand would, of course, itself result in increased employment in these industries. These new jobs would imply additional income (as per diagram) and again some would be spent and some saved, and so on.

CYCLE

If the cycle outlined in the diagram works, it should provide an impetus to growth in existing import-substituting industries and to the establishment of new ones as economies of scale become possible. Whether export industries would be stimulated would depend on political factors; in the normal course of events the existence of a larger local market should enable manufacturers to develop and adapt products and technology to Third World conditions and therefore improve their position in foreign markets.

In particular, the country's comparative advantage probably lies in exporting basic consumer goods to other Southern African states, where potentially large markets exist. The question may be raised as to how these countries, which are generally extremely short of foreign exchange, should pay for such imports. Most of these countries have, or can produce, basic commodities which this country needs, e.g., hydroelectric power, water, basic minerals and raw materials, and counter-trade deals could be arranged in many cases.

In conclusion, inward industrialisation offers South Africa the chance to reorient its growth path, and through a rapidly expanding consumer market, to open up new avenues for both import substitution and export promotion. However, it should not be seen as THE answer, and there are many potential pitfalls. Above all, concentration on inward industrialisation should not detract from the more mundane tasks of productivity improvement and the maintenance and extension of existing export markets, streamlining of the regulatory/institutional environment, etc. Further, the opportunities to improve rural conditions provided by rapid urbanisation should be firmly grasped. Indeed, it is essential that an urban-based strategy should be accompanied by an appropriate rural-based one. □

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Democratic Economic Growth

The debate about future economic strategies and development paths for South Africa is being conducted in terms of two separate concerns – redistribution and growth. The former is a response to the need to redress the extreme inequalities in distribution of income and wealth, and the related disparities in living standards, for which South Africa is notorious, and which have historically been expressed essentially in racial terms. The latter is a response to South Africa's economic crisis – the severe decline in growth performance over recent years – which has coincided with, and been linked to, the change in the political balance which has now finally brought the society to the brink of constitutional negotiations.

The economic crisis of the 1970s and 1980s has been a 'supply-side' crisis in the broadest sense of the term. The decline in growth originated in problems on the supply-side of the South African economy – in the process of production. Only during the course of the crisis did inadequate demand become a factor. As a result, future growth cannot be based simply on an expansion of demand, for example through the redistribution of incomes. There will have also to be restructuring of the supply-side to lower costs of production.

TWO ALTERNATIVES

South Africa appears to be facing two alternative paths for future growth. Each articulates itself in terms of a "growth-plus-redistribution" framework, but reflects the interests of different combinations of classes and groups. This is because the respective growth paths embodied in each accumulation strategy have strongly contrasting implications for the nature, extent and time-scale of redistribution. For this reason, it is difficult to conceive of a "compromise" **between** the two alternative accumulation strategies, as distinct from the "compromise" **within** each strategy between different social groups.

The present government and business are already implementing what can be labelled a neo-liberal export-oriented growth strategy. This separates redistribution from the growth process. The engine of growth is identified as the expansion of export markets, with the emphasis placed on the extended processing in South Africa of commodities presently exported in semi-processed form. Social inequality would, in this scheme, be addressed by the redistribution, to the most impoverished and excluded groups, of some portion of the 'dividend' resulting from this growth. The mechanism for this would be primarily budgetary, though the 'trickle-down' would be somewhat accelerated, especially through the use of the already-established Independent Development Trust ('Steyn Fund') and similar institutions.

The neo-liberal export-oriented strategy would likely reinforce and extend a dualistic structure of society, by widening income inequality within the black population. Some groups – urbanised middle classes and skilled

workers – would be incorporated within the "compromise" underlying the strategy, but large sectors of urban and rural poor would be excluded, obtaining benefits only from the secondary redistributive mechanisms, to a limited degree and over an extended time-scale. Under these circumstances, the long-term prospects for political stability would be reduced.

DEMOCRATIC GROWTH

The basis for an alternative strategy for future accumulation is an attempt to address **directly** and in combination the two problems of low economic growth, and of unemployment and extreme relative poverty, in contrast to the separation between redistribution and growth reflected in the export-oriented approach. The central focus of the democratic growth strategy is the expansion of labour-intensive basic consumer goods industries, for the domestic market in the first instance. This strategy aims to achieve growth through a more extensive and rapid redistribution of incomes and wealth, resulting from employment creation and expanded production of basic consumer goods. The underlying synthesis of group interests would include not only the employed working class and the mass of urban unemployed, but also the middle classes (black and white).

The crucial issue is that this strategy cannot be premised on a direct redistribution of incomes, whether as "high wages" for organised labour, or as an income subsidy for the unemployed. This route would simply exacerbate a cause of the growth crisis, which as noted, originated on the supply-side of the South African economy, and thus lead quickly to supply bottlenecks and higher levels of inflation, eroding any potential real gains.

Instead, the emphasis would be on the redistribution of **investment**, rather than consumption. This implies, first, a substantial increase in the level of productive investment, made possible by drawing funds out of financial markets. At the same time, the composition of productive investment would need to be shifted away from its current emphasis towards those industries and sectors producing basic goods and services and so targeted for expansion in the context of this growth strategy.

Housing construction is perhaps the most important single sector to be targeted for investment, though much analysis remains to be done about the growth potential, and macroeconomic constraints upon, strategies to expand this sector. There is also a need for further debate about which sectors and industries are appropriate as direct targets for expansion. One alternative would be to direct resources towards labour-intensive light industries in the formal sector, such as food, clothing, furniture and so on, to try and take advantage of potential economies of scale. A contrasting approach is that investment should focus upon the provision of infrastructural services, such as electricity and telephones, in the black townships,

which, it is argued, would encourage the growth of "informal sector" manufacturing micro-enterprises producing basic goods, and expanding employment.

THE ROLE OF THE STATE

'Redistributing investment' immediately raises the question of the role of the state in the economy, perhaps the central issue in debating future accumulation strategies. It seems self-evident that the future South African state, like the state in a diverse range of other national economies throughout the history of capitalist development, will play a substantial role in stimulating and shaping the society's economic progress. One reason for this is that this accumulation strategy requires a fundamental shift of direction in our economic development. This can be achieved only if the state is central, because it is only that state which has the necessary command over resources, capacity to undertake the risks involved, and means to counter the opposition of powerful but inevitably recalcitrant private economic interests.

One aspect of state intervention must be the planning of target rates of change for essential macroeconomic variables, such as output, employment, and prices, especially to enable shifts of emphasis within the overall growth path. Thus, as the South African economy approached a state of full employment and satisfaction of basic consumer needs (which will undoubtedly take many years), it would become necessary to shift the emphasis of investment policy.

Beyond this, however, the form of state intervention would not be determined on general principles, but on the basis of strategy and policies developed on a sectoral basis, for sectors identified for intervention. In other words, state intervention would be targeted and selective, rather than overarching, as was the case for the eastern European approach to planning.

Underlying this approach is the view that, since all economies are 'mixed', combining markets and plans, the policy issue is not to find a single optimal (statically efficient) combination between the two processes, but rather to manage their interaction over time, in order to achieve dynamic efficiency, that is, to manage the adjustment of resources allocation over time so as to reduce the costs associated with these shifts. This requires continuous planning and transforming of the market environment within which firms operate, to guide firms' activities in line with wider social and developmental objectives.

NATIONALISATION

In this context, calls for, and debate about, the merits of nationalisation can be seen in a new light. On the one hand, decisions about the state's direct role in the provision of goods and services are located within a much broader set of considerations of its capacity to influence the use of economic assets which it does not immediately own. For example, it may be most efficient for social infrastructural prerequisites for formal sector development in urban areas to be delivered by newly-established or extended state corporations. On the other hand, the expansion of production along more conventional formal sector lines could not be based upon large state corporations. Hence, actual nationalisation – in the sense of the state taking over ownership of assets currently privately-owned – is likely to be appropriate in only a limited number

of situations, if at all.

On the other hand, the state would have to intervene quite actively in the private sector investment process to ensure that resources were channelled in the desired directions by private firms themselves. This would require a co-operative relationship between private firms and state planning institutions, with firms involved in the sectoral planning process (as indeed should organised labour be). Firms would, however, have to accept a subordinate role in this process, in exchange for the planning process creating a basis for profitable production. If state-private sector interaction is characterised by conflict rather than co-operation, the outcome can only be dynamic **inefficiency**, and continued stagnation.

In an economy like South Africa's, with the private sector dominated by a few large conglomerates, the prospects for this accumulation strategy will hinge on the policy adopted towards the conglomerates, together with their response. For the 'redistribution of investment' to be successful, the conglomerates cannot be left in their present form. The central reason for this is that the conglomerates dominate the provision of external finance to industrial firms, financial linkages within the various conglomerates constituting the nexus of this process. The subordinate position of the banks to non-bank financial intermediaries within the conglomerate structure reinforces the latter's relative immunity from even conventional forms of state control over financial flows. An illustration of this was provided by the conflict in early 1990 between the SA Reserve Bank and the commercial banks over prime interest rates and off-balance sheet lending, where the Reserve Bank had extreme difficulty gaining acceptance for its efforts to limit monetary growth.

FINANCIAL SYSTEM

Comparative experience from both the advanced capitalist economies and the east Asian NICs suggests that the capacity of a state to intervene in, and direct, private sector investment depends critically on the nature of the financial system transforming savings into investment. The crux of the issue is the relative weights of bank credit provision and capital market processes in providing firms with external funds, required over and above retained profits for fixed capital investments. In economies, such as West Germany, Japan or Taiwan, where banks are critical in providing finance to industry, and capital markets are less developed, the state is able to shape industrial development through central bank regulation of bank lending policies. This is in contrast to the US and UK economies, where the dominance of the stock markets and the resulting diffusion of capital mobilisation makes state intervention extremely difficult.

Notwithstanding that there might be benefits (economies of scale and of information) arising from the existing high degree of corporate concentration, redistribution of private sector investment in South Africa will require the state to restructure the financial networks which are the essential basis of the conglomerate form. This would best be carried out **not** by nationalisation, but rather by using anti-trust policy to dissolve the holding companies, which are the critical feature of South Africa's conglomerate structure. At the same time (though this would not be the primary objective), the controlled sale of the holding companies' shareholdings in operating companies could

achieve a more equitable distribution of asset ownership, especially if affirmative action was used to promote black ownership of business. Such an anti-trust policy would result in the private sector remaining powerful productively, but being far less concentrated, and thus more likely to be subject to state intervention.

An interesting and important historical parallel in this regard is action taken by the United States Occupation Force in Japan after 1945. The **zaibatsu** conglomerates (which strongly supported the Imperial Japanese government during the war) were broken up via the banning of their holding companies, and the resale of their shareholdings. Although conglomerates re-emerged in Japan during the 1950s, after the Occupation had terminated, their structure was quite different from the pre-war situation, since the banks were now at the centre. The 'new' conglomerates were thus subject to the economic leadership of the Japanese state, and played an important role in the 'Japanese economic miracle'.

Will it be possible for a democratic and non-racial government in south Africa to undertake such dramatic action? In fact, a confrontation with the conglomerates might be inevitable. Even a "gradualist" approach involving higher rates of taxation and the reintroduction of prescribed assets may, in the context of the overall accumulation strategy, prove to be more than the conglomerates are prepared to stomach. It needs to be emphasised also that it is not only that the composition of investment needs to be transformed, but also its level increased. It cannot be assumed that private sector investment will automatically increase from its abysmally low levels of the past 15 years, in the context of a moderate post-apartheid government trying to move cautiously away from inherited neo-liberal policies towards a more development-oriented approach.

CHALLENGING CONGLOMERATES

Two points are worth underlining in relation to an attempt to challenge the conglomerates. First, the approach sketched above retains, and indeed enhances, the role of the (transformed) private sector. The other point is that the dissolution of the conglomerates could provide an important element to link the interests of the middle classes, including small and medium-sized businesses, with those of the working classes (employed and unemployed).

What are the implications of this strategy for the rate and time-scale of economic growth? To begin with, it should be emphasised that expanding and redistributing investment will immediately result in economic growth – this is a strategy for accumulation, not simply for expanding consumption. At the same time, it must be recognised that some increase in consumption levels over the short-term must reduce the overall surplus available for growth. Adding to this is the need to expand the delivery of

services (education, health, welfare) to those sectors and areas where they are currently in limited availability. This is a major political demand, and expectations will have to be met to some degree.

Employment creation through labour-intensive industrial expansion will also involve some trade-off with productivity growth deriving from increased applications of technology, at least until the labour surplus is absorbed. For all of these reasons, a first response to the issue of the rate of economic growth might suggest that a somewhat lower rate would be achieved, than by a path which placed stricter limits on aggregate consumption growth. This might also be considered a price worth paying for achieving greater equity.

To leave this question here would be to remain trapped in a static framework, however. What needs to be taken into account in addition are the productivity enhancements and dynamic efficiency gains derivable from the sectoral planning approach. This allows the more rapid diffusion of new forms of organisation of, and methods of, production, as well as the avoidance of wasteful competition and duplication of effort. Comparative experience suggests that this approach presents a much more promising route to cost savings and restored profitability, than neo-liberal efforts relying on 'getting prices right'. Viewing the growth potential of this accumulation strategy from this dynamic perspective, then, suggests that it could offer at least as much in terms of a growth dividend for South African society as a whole, as the current government/big business view, while far surpassing the latter in terms of the scale and pace of increased equality. □

Note:

This is a shortened and revised version of a paper presented at a workshop on 'Economic Policy for a Post-Apartheid South Africa', convened by the ANC and COSATU in Harare, April 1990. The complete paper is available in **Transformation** 12 (1990). Sole responsibility for the views expressed here rests with the author.

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Detention without trial in South Africa: The abuse of human rights as state strategy in the late 1980's

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"Albeit concealed behind a smokescreen of disinformation, censorship and legal formality, the apparatus of the police state is already well established in South Africa"¹

In spite of the fact that by the end of August 1990 1250 people had been detained without trial in South Africa since the beginning of the year, and at least 283 were still incarcerated, there was a general perception that the era of mass detention was over. This can be attributed to the success of the hunger strike of 1989 and the lifting of the national State of Emergency on 8 June 1990. The issue of detention has tended to be obscured beneath political developments such as the unbanning of political organizations, negotiations, and the spread of violence. However, the State of Emergency remained in force in Natal, and by August a number of unrest areas had been declared in the Transvaal under the Public Safety Amendment Act. In the meantime the detention provisions of the Internal Security Act, and parallel security legislation in the bantustans, have been used vigorously, particularly in recent months against members of the African National Congress and the South African Communist Party. Allegations of assault and torture continue to be made and hunger strikes are still reported. Detention without trial has tended to take on an unjustifiably low profile, and the recently unbanned political organizations have had surprisingly little to say about it. The continued importance of human rights abuses in South Africa make this an appropriate moment to assess detention as government policy during the second half of the 1980s.

On 23 January 1989 twenty detainees at Diepkloof Prison went on hunger strike, demanding the immediate and unconditional release of all detainees. By the end of March the strike had achieved national dimensions, involving over 700 persons. Although 37 hunger strikes had been recorded in the period June 1986 to January 1989 they were sporadic and isolated. Faced by a national strike, the authorities responded by scattering detainees, and threatened that no-one on strike would be released. However, the pressure on Minister of Law and Order, Adriaan Vlok, was so great under these new circumstances that over 600 people were released by the end of March 1989. More than 10% had been in detention since 1986. The determination of the hunger strikers was illustrated by the fact that 130 were admitted to hospital, from which a number escaped. Sandile Thusi, a Durban detainee, was near death when released after 38 days

without food. His case sums up the power of an apparently powerless group, removed from society for purely political reasons and denied all access to the legal system. At the end of March there were 100 remaining detainees although by the end of August 1989 the population had risen to about 450, while another eight hunger strikes involving 22 detainees were recorded from April to June 1989. At the end of the year the number of detainees had declined to about 60².

From the early 1960s South Africa developed a strong and unsavoury tradition of detention without trial for those who opposed apartheid. The law was, and remains, complex, but three main types of detention can be recognized under the Internal Security Act (Act 74 of 1982) and the State of Emergency (proclaimed under the Public Safety Act (Act 3 of 1953)): preventive; interrogative; and State witness. The Internal Security Act's section 29 was used for long interrogative detention of potential defendants in political trials, while section 31 was used to hold State witnesses. In March 1986 section 28, the preventive detention clause, collapsed in the face of court challenges requiring the State to furnish reasons for continued detention. However, both it and section 50 (short term preventive detention) became superfluous after the declaration of a full State of Emergency on 12 June 1986. Sections 3(1) and 3(3) of the security regulations³ allowed for detention for any purpose as defined under the Emergency. Each case had, nevertheless, to be reaffirmed with the annual renewal of the Emergency.

While the scale of detention varied over the years there was a clear trend towards greater implementation. Using a three year rolling average it is possible to show that there was rapid expansion in the late 1970s, reaching a plateau in the early 1980s. The figures available are probably underestimates, years and categories are sometimes unclear, and disaggregation of annual totals is often problematic. However, from 1975 to 1984 it would appear that at least 5000 people were detained⁴. In 1985 over 10000 were held, more than 70% of them (7361) under the partial State of Emergency. By the end of this second Emergency on 7 March 1986, 12144 had been detained. With the declaration of the third (national) State of Emergency in 1986 at least 30000 were held (10000 in the initial 5 weeks, or one every five minutes) aided by a remission granted to common criminals on Republic Day 1986. This figure declined to about 5000 during the fourth Emergency of 1987-1988, and 2000 during the 5th of 1988-1989. This compares with 11500 in the first (1960) Emergency and 2430 after the Soweto rising of June

1976; and the 25000 detained in toto up to 21 July 1985⁵.

LARGE SCALE

Detention thus reached deep within organizations and into the furthest parts of rural South Africa. This was a particular characteristic from mid 1986, with small towns and their organizations and activists experiencing severe repression⁶. In turn this made the documentation of the crisis more difficult: the scale of detentions, censorship, and the poorly developed structure of human rights monitoring outside urban areas together made the rural picture at times indistinct. Of the 1986-1988 Emergency detainees, 30-40% were children under 18⁷, some as young as 8, and 75% belonged to United Democratic Front (UDF) affiliated bodies⁸. Detentions crippled national and regional executives of the UDF, and had a powerful effect on Azanian People's Organization (AZAPO) affiliated groups, and other organizations with a Black Consciousness tradition. Politicized youth in area congresses and student and pupil organizations were the main target of the State, but detention affected an astonishingly wide cross section of people: the Detainees Parents Support Committee (DPSC) in late 1986 highlighted the detentions of a 9 year child in East London and an 80 year old man in Reitz, Orange Free State⁹, for example. Overall the two largest groups affected were students and teachers, and civic association members; followed by unionists, clergy and journalists. The relative numbers of types of person detained do not, however, necessarily give an accurate picture of the impact on local communities; and there are in any case methodological problems in such classification.

The purpose of detention was the obvious gathering of intelligence and occasional recruitment of informers; the destruction of anti-apartheid organizations by separating them from leaders and activists; and general intimidation, disruption and deterrence which forced thousands underground. Such people became used to a nomadic existence which threatened political activity, educational advancement, and livelihood. It was used as part of a general war of terror against those communities which broke away from government structures and developed as centres of people's power in the mid 1980s¹⁰. For example, it has been estimated that during 1986 and 1987 8% of the population of Alexandria was held in detention¹¹. The determination of the authorities to track down activists was shown at Worcester in the Western Cape where a UDF member was detained as a result of a building society withdrawal and cooperation by Allied Building Society staff with the police. Random detention was used to destabilize and spread fear: people were simply in the wrong place at the wrong time. For instance in Pietermaritzburg in June 1986 a Progressive Federal Party (PFP) supporter who placed a challenging advertisement in the local Press was detained for five days; as was a domestic servant, said to be apolitical, who voiced her approval of a holiday on 16 June 1986 too exuberantly on the suburban streets¹². On 15 June 1986 189 people were detained at a prayer service at St Nicholas Anglican Church in Elsie's River¹³. The circumstances of these detentions were not far removed from those recorded in Argentina in the 1970s even if the results were usually not so disastrous for the victims. It is possible that the threat of detention was as important a

weapon in the armoury of the State as the existence of thousands already locked away.

In effect many detainees, especially those held for over two years since the beginning of the national Emergency, became a group of permanent political prisoners and the forgotten people of a South African gulag¹⁴. In northern Natal, for example, there is circumstantial evidence that lengthy detentions from 1986 related directly to lack of energetic lawyers and a human rights monitoring structure. The authorities were extremely slow to inform families, who often found out about detained relatives from support groups. Joyce Mabudafhasi of the National Education Crisis Committee (NECC) disappeared in Port Elizabeth towards the end of 1986 and was located in detention at Potgietersrus (over 1000km away) three weeks later¹⁵. The State was reluctant to supply reasons for detention and in the case of Zwelakhe Sisulu, editor of **New nation**, provided contradictory justifications. At times the State argued that his detention related to journalistic activity; at others to his NECC position, although he never held an official post in that organization and was a prime influence behind a return to school in 1986¹⁶.

LISTS

The monthly lists of detainees released in Parliament contained the names only of those held for more than one month. Detainee support groups questioned the currency of these lists and consequently drew attention to the problem of 'missing' persons. Human rights lawyers challenged the legality of some detentions, sometimes successfully, particularly in the Natal (Pietermaritzburg) and Durban Supreme Courts. In most cases, however, security forces tightened their grip, either through new regulations or the decisions of the Appellate Division. The Durban Supreme Court decision to free UDF Natal Executive member Lechesa Tsenoli in August 1986, by setting aside part of section 3 of the Emergency security regulations, was soon overturned by the Appellate Division in Bloemfontein, for example. In general the Appellate Division disregarded the rights of the individual and ruled in favour of the State¹⁷.

Those concessions won in respect of detention conditions, such as the judicial inspection of detainees, had no force in law and were internal administrative rules. They did not alter the fact that detainees were at the mercy of an unrestrained political police indemnified and enjoying virtual immunity under the Emergency; and which acted as policeman, judge and jailer. There was manipulation of the few rights enjoyed by detainees in terms of study, exercise, clothing parcels, access to doctors and visits; and complaints were investigated by the police and therefore lacked credibility. Detainees were moved regularly from one police station to another, making it difficult for support groups to keep track of them, and often impossible for families to exercise visiting rights. Ironically, for a country which proclaims its Christianity from the preamble to its constitution, detainees were denied Bibles and there is a case on record under the State of Emergency of the refusal to deliver an Anglican prayer book. In rural areas in particular there were complaints of worm ridden food and lack of blankets¹⁸. The regime suffered by Emergency detainees was arbitrary, putting them at mental and physical risk, and there is evidence that the police disregarded the punitive

and very precise regulations decreed by the Emergency security regulations. Solitary confinement, a gazetted punishment, was abused by the security police, often because of a refusal to mix detainees of different races. There were no rules governing interrogation; and the instructions of doctors were disregarded¹⁹.

ROUTINE

Prolonged interrogation with no limit on length or nature, random assault including the use of teargas in cells, and systematic torture were experienced in all parts of South Africa and in some areas became routine. The use of teargas was officially admitted by the Minister of Justice who said that 9 instances occurred between 10 February 1987 and 31 January 1988²⁰. General physical abuse became so frequent as to be unremarkable and some of the worst instances took place at police stations or isolated anonymous places. In 1985 Wendy Orr, an assistant district surgeon in the Port Elizabeth area, documented through affidavits 286 cases of assault or abuse perpetrated on detainees in a seven week period²¹. Amnesty International commented as early as 1982 that "... detainees were commonly treated brutally during interrogation by security police"²², and academic studies show that torture of various sorts was widespread²³. A National Medical and Dental Association (NAMDA) survey of 600 detainees in July 1985 showed that 83% exhibited signs of abuse and 95% experienced post traumatic stress (PTS) as defined by the American Psychiatric Association. The length of detentions has sometimes been attributed to the need for the authorities to conceal the resultant physical effects²⁴. There is no reason to believe that these conditions improved under the 1986-1990 State of Emergency and a number of instances emerged through the fog of censorship, largely as a result of court cases. For example, the maltreatment of Father Smangalis Mkhathshwa, Secretary General of the Southern African Catholic Bishops Conference, was widely reported; and at Westville Prison in Durban the existence of a blacked out torture room was revealed. In the Nair case of April 1986 two policemen were found to have lied in court about the facts of an assault case, and were convicted and fined²⁵. Psychological torture took many forms from the refusal to switch off light to the existence of closed circuit television in the more sophisticated centres²⁶.

Over the years some detainees were driven by detention conditions to take their own lives, and others were murdered under the cover of suicide and other euphemisms. Deaths in detention from 1963 to 1986 numbered 80²⁷ and under the State of Emergency continued. There was evidence that security police acted with impunity in the knowledge of their protected position, and that violence was used to extract information, intimidate and punish. Lord Avebury for Amnesty International has pointed out²⁸ that in other countries the suicide of detainees is unusual as most are committed people with every reason to live. In South Africa the largest group of deaths has occurred within 24 hours and 35% took place in the seven days after detention as normal, healthy individuals²⁹. Inquests have generally found no-one to blame. From 12 June 1986 to the end of the decade six more deaths were recorded: Xoliso Jacobs at Upington on 22 Oct 1986; Simon Marule at Bloemfontein on 23 December 1986; Benedict Mashake at

Burgersfort on 26 March 1987; Nobandla Bani at Port Elizabeth on 29 July 1987; Alfred Makaleng at Pietersburg in August 1988; and Albert Simelane at Tembisa on 20 November 1989. At least three of these people were in their 20s and in the case of Mashake the inquest recorded signs of assault on his body although he was alleged to have committed suicide³⁰.

WOMEN AND CHILDREN

Women, constituting 10% of the detainee population in late 1986, encountered specific problems, in particular miscarriages after assault, teargassing during pregnancy and the imprisonment of dependent children. At least one foetus was found in a cell; and a two year old child was detained for eight months³¹. Racism was an inevitable concomitant to this pattern: young black men suffered the worst treatment in all senses, mature white women probably the best. Hospitalization ironically provided the most propitious chances for escapes, several of which were recorded, most notably that of four members of the South African Youth Congress (SAYCO) from Hillbrow Hospital to the West German Embassy on 20 March 1989³². The greatest concern was expressed about the psychological and physical effects of detention upon children who, having been subject to brutal treatment, showed signs of social alienation through the loss of parental and organizational discipline. At Parys in 1986 there was a case of a boy of 12 allegedly tortured³³.

Some young detainees were persuaded on release to attend re-orientation camps, where they were subjected to de-politicization through reported brainwashing and intimidation. Six such camps were named in 1986 at Estcourt (Natal), Rustenburg (Transvaal), Barkley West, Kimberley and Port Elizabeth (Cape) and in the eastern Orange Free State³⁴. Young ex-detainees were excluded from State schools³⁵, while adults lost jobs or pay, particularly in sectors such as the construction industry, and in spite of union attempts to protect them. Of the American based companies present in South Africa, for example, only Mobil and 3M agreed to maintain full pay for persons in detention. Other ex-detainees suffered continual harassment through the laying of trivial or concocted charges often based on false evidence, on top of post-detention stress. It has been estimated³⁶ that 20-25% of detainees were charged and only 2-4% eventually convicted of an offence in the period 1981-1989: the incidence of withdrawn charges and acquittals was thus high.

There was also an increasing tendency to restrict activist detainees on release, lending credence to the somewhat clichéd claim that they were transferred from a small to a larger prison: South Africa itself, and more specifically, their homes. In effect ex-detainees became their own jailers and by 31 December 1989 there were 658 of them. Some expressed the opinion that they were better off in jail where they were part of a distinct group – under restriction they were insecure and outcast. These effective bannings were less public than the old style Internal Security Act equivalent and could be flexibly tailored with no time limit as long as the State of Emergency remained. They tended to incorporate both functional and geographic limitations and typically prohibited involvement in certain organizations and campaigns, and restricted the individual to a given magisterial district and a specific night-time location.

The last restriction made ex-detainees particularly vulnerable to vigilante attacks, while night-time visits by the police were common. Vulnerability also arose from the long, regular trips required to report to police stations – Chris Ntuli was killed in April 1989 having reported to the police in a Durban township. Two Queenstown detainees were placed under 20 hour house arrest and the requirement that they report twice to the police in the remaining four hours; and a Northern Transvaal restrictee had to report daily to a police station 108km away. During 1988 the authorities were clearly particularly concerned to prevent released activists from participating in campaigns opposed to the municipal elections held on 26 October. Many detainees were prohibited from being in any gathering: when Sandile Thusi of Durban had a visitor the other seven occupants of his house had to leave. These restrictions seriously affected lifestyles, education, employment and political and intellectual activity; and were compared with the banishment orders served in the 1950s and 1960s. Many restrictees suffered from PTS symptoms such as lack of concentration, headaches, sleeplessness or nightmares, and access to doctors was difficult under restriction orders.

TERROR

A more general terror extended to families. Hostages, nine from one family in Soweto in 1986, were taken, people assaulted and property burned and damaged in attempts to lure wanted people into detention. In late 1986 a 74 year old man was detained as hostage for his son and a 15 year old was locked in a refrigerator on a Soweto dump³⁷. More general harassment included hoax phone calls to the families of detained persons and the circulation of forged pamphlets attributed to the authorship of Joint Management Centres, part of the State security system. The children of detained persons were found to be behaving in aberrant ways suggesting psychological damage, and families and ex-detainees were harassed by vigilante groups. A large proportion of young refugees moving around Pietermaritzburg from September 1988 onwards in an attempt to avoid Inkatha retribution was thought to comprise ex-detainees.

The scale of detention without trial noted in the period 1985 to 1989 suggests that the government adopted it as a key tactic. By implication the use of non-Emergency law for political and ideological purposes was seen as flawed as a means to crush popular resistance. Similarly, while use of the courts for massive political show trials was not abandoned, as shown by the Delmas Treason Trial³⁸, it proved costly and sometimes embarrassingly inept, as in the Pietermaritzburg UDF/South African Allied Workers Union (SAAWU) Treason Trial of 1985-1986. In resorting to mass violation of human rights and a state of officially sanctioned lawlessness, in which accountability of the security forces to anyone but themselves was minimized, the power of the courts to protect the welfare of those detained was drastically diminished. The main advantage for the State was the ability to act rapidly with little fear of being called to account by members of Parliament or the judiciary.

Although South Africa did not plumb the depths reached by Argentina and Chile in the 1970s, with sports stadia full of detainees and large numbers executed in cold blood, mass detentions pointed to the growing militarization of South African society. In a number of ways South Africa

experienced a bloodless coup. In the second Ernie Wentzel Memorial Lecture Justice John Didcott expressed the view that the country had become lawless because power was exercised lawlessly³⁹. The combination of a Parliament with no democratic base, rule by decree and the wielding of virtually unbridled power made detention a natural phenomenon. The National Security Management System⁴⁰ shadowing each level of civil power was probably a regulator of detention and other security measures. Mike Loewe, pondering upon his time in detention in the Eastern Cape in 1986, saw in his jailers the faces of the bullies and rugby heroes he had known at school. Helen Suzman and Peter Gastrow in 1985 portrayed the security police as a law unto itself⁴¹ and there is a considerable body of evidence to show that deliberate lack of control in tense situations was used as a terror tactic, especially against the youth. Use of detention was described by the Commonwealth Secretary General Sir Sridath Ramphal as early as 1985 as "... a new dimension of the systematic repression that is apartheid"⁴².

WHAM

Detention was an integral part of the 'Winning Hearts And Minds' (WHAM) strategy of the government. This comprised three tactics, in which centres of resistance were heavily subsidized materially, popular organizations were undermined, and more pliable political groups eased into officially approved structures. Clearly detention was seen as a way of reducing the power of people's organizations creating opportunities for 'moderate' black political activity. The prolonged or repetitive detention of leaders and activists was designed to cause social and political dislocation as a way of severing links with their support base. A very clear signal was sent to those in both leadership and low level activist positions, and to the community as a whole, to the effect that the price of involvement in anti-apartheid politics could be very high indeed. The length and nature of interrogation in many cases showed that disruption was a primary aim, sometimes for specific reasons. For example, the breakdown in October 1985 of the Port Alfred talks between local businessmen and politicians and popular organizations was directly attributable to the detention of key individuals. Periods of detention bore no relation to the ostensible reason where this was defined beyond vague references to State security. The precise reason was less important than the State's need to remove from circulation influential and articulate opponents. Analysis by the Human Rights Trust has shown that detention was most severe in centres of people's power with well-developed area and street committees, popular courts, and rent and commercial boycotts⁴³.

To a very great extent the State was able to rely on the acquiescence of most whites and a majority of professional bodies as it continued to abuse human rights. The Medical Association of South Africa (MASA), for example, expressed little more than polite interest in the problem of detention, existing in a world of ponderous bureaucracy at odds with the need for activism in addressing the issue. There were signs, however, that the authorities were not as sanguine about the adverse publicity derivative of mass detentions as may have appeared. Over the years the DPSC was subjected to virulent attacks by government ministers, and local detainee support groups were harassed. Together these organizations provided enough

information to challenge the bland image of reform propagated abroad and cause severe embarrassment. It is significant that of the 18 organizations restricted on 24 February 1988, two – DPSC and the Detainees Support Committee (DESCOM) – were concerned specifically with detentions. In September 1988 the Prisoners' Welfare Programme (PRIWELPRO) was banned in Transkei. New local groupings had emerged by late 1988, the role of the DESCOMs had been taken over in some instances by sympathetic unrestricted human rights organizations like Black Sash, and the prestigious Human Rights Commission had been established. South Africa, for a number of reasons, is a relatively open society and in spite of its grading by the American Human Rights Watch as one of the four worst abusers in 1987 of human rights organizations and activists (the others being Chile, Czechoslovakia and the Soviet Union)⁴⁴ such activism flourished and ensured that the issue of detentions was not forgotten either in South Africa or overseas. Nevertheless the long standing system of censorship, augmented by the Emergency's Media Regulations and endemic self censorship, ensured that the flow of information was minimized.

UDF

It has been widely argued that a main purpose of the State of Emergency and its detention provisions was to neutralize the UDF. As an umbrella body the UDF was driven largely underground by detention, the threat of detention and post-detention restrictions. In the process it was rendered less democratic by force of circumstance which hampered the openness upon which democracy depends. Nevertheless many of its affiliates not only survived but flourished and the continued popularity of rent and service boycotts, periodic symbolic stayaways and election boycotts point to the underlying spirit of resistance. For example, the three day national stayaway in 1987 to protest at changes in labour legislation was the largest in the history of South Africa; and in the municipal elections of 26 October 1988 10% of blacks voted in spite of massive government pressure and an expensive public relations exercise⁴⁵. Resistance continued despite the detention of leaders and activists and regulations which criminalized the calling of boycotts. Indeed the Defiance Campaign begun in August 1989 suggested that extra-Parliamentary political activity had regained its momentum, and that it would require far more than a policy of detentions and restrictions to curb it. Many of those restricted declared that they would no longer abide by their orders – in July and August 1989 alone 41 persons appeared in court in this connection. During the unrest in the Pietermaritzburg townships the absence of leading UDF personalities in no way inhibited the establishment by **amaqabane** (comrades) of defence committees to oppose Inkatha recruitment drives conducted with the passive and active support of State security forces. Detention hampered resistance, but did not destroy it.

There is evidence in fact that the very nature of detention contained solidarity as well as dislocative potential. The scale, randomness and sheer injustice of detention without trial made their mark even on those who might tend towards apoliticism: detention made more obvious the crudeness of South African State power. Thousands of people were touched, if only obliquely, by detention: extended family members, friends and colleagues of those incarcerated, for instance. The fear caused by

detention stimulated a closing of ranks, forgetting of past differences and diminution of the generation gap. In some cases spontaneous organization among families was noted. The State could not assume even in conservative segments of black society that extreme repression would receive unstinted support, implying the opening of space for political mobilization.

IMPLICATIONS

For South Africa as a whole the implications of detention without trial have been serious and far reaching. From 21 July 1985 to the end of 1989 over 40,000 people were detained. The severity of the assault on their human rights must not be understated: sudden and arbitrary removal (often at that favoured time of day of the political policeman, the early hours of the morning, when human beings are at their most vulnerable) from the security of familiar surroundings to a restricted environment with an apparently endless time-frame, populated at best by unsympathetic and at worst by hostile and physically abusive characters with virtually limitless power. Outside, Lawyers and judges holding individual rights in high esteem were relatively few in number and where minor dents in the armour of apartheid were made these were quickly repaired by a judiciary owing obedience to State security and group identity. The legal profession, with courageous and honourable exceptions, contributed significantly to the apparently free-fall disintegration of individual human rights in South Africa. One can of course only speculate about the implications of this situation for a future South Africa but it does not seem far-fetched to argue that the legal system long since lost the respect of large numbers of South Africans⁴⁶. There is the danger that detention has come to be seen as a natural accompaniment to political opposition in South Africa, to be used one day under a new dispensation against those who are the current oppressors. For those for whom detention became virtually a way of life, loss of respect for the law and the judicial system would seem to be a natural and logical process.

This article has considered a number of key variables: the size of the detainee population; the types of people involved; the purpose of detention and the conditions under which people were held; the use of further laws and regulations to control and harass detainees on release; and the general climate of informal repression surrounding the townships in particular. It must be concluded that during the late 1980s the government preferred to detain rather than negotiate, that it was a prime actor in lawlessness, and that it contributed in a major way to political violence.

The damage wrought on its own social fabric by the South African government has been major. If the future of South Africa is to be one of democracy and equity, this damage must be repaired. Just as the abuse of human rights has been central to State strategy, so their protection must in turn be central to the liberation struggle. Thirty five years ago the Freedom Charter was uncompromisingly blunt about detainees: "No-one", it declared "shall be imprisoned, deported or restricted without fair trial", in courts "representative of the people". African National Congress guidelines for a future South African constitution published in September 1988⁴⁷ are less specific, a cause for concern considering that the charter is seen as an ideal model, and the guidelines an indication of more

pragmatic thinking. The latter propose a Bill of Rights to “guarantee the fundamental human rights of all citizens ... (through) ... appropriate mechanisms for their protection and enforcement”. Given the recent history of South Africa, the Bill of Rights and its mechanisms will need to be very clear about the issue of detention without trial in case the temptation to perpetuate a tradition proves too strong. The Namibian example gives reason for hope: constitutional article 11 headed ‘Arrest and detention’ outlaws arbitrary arrest and detention, limits detention in custody to forty eight hours and subjects a prolongation to the authority of a magistrate⁴⁸ □

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3. *Government gazette* 10280 (12 June 1986) R109.
4. Based on figures given in the annual *survey of race relations*. However, M. Coleman and D. Webster “Repression and detentions in South Africa” *South African review* 3(1987), p. 113, record 2638 detentions for the period 1961-1984 alone.
5. Detainees Parents Support Committee *Report* March 1986; D. Webster “Repression and the State of Emergency” *South African review* 4(1988), p. 142; Human Rights Commission *Fact paper* 1 (1988); M. Coleman and D. Webster “Repression and detentions in South Africa” *South African review* 3 (1987), p. 111.
6. *Now everyone is afraid . . . : the changing of policing in South Africa*. (London: Catholic Institute for International Relations, 1988).
7. *Apartheid’s violence against children* (London: International Defence and Aid Fund, 1988), p. 25.
8. Although it is generally true to argue that a major purpose of the State of Emergency was to cripple the UDF, and in many parts of the country a vast majority of detainees were activists of its affiliates, this pattern had variations. During the height of the violence in the Pietermaritzburg area from 1987 to 1988, hundreds of detainees described themselves loosely as ‘comrades’ and were members of anti-Inkatha defence committees. Their relationship with the UDF was often tenuous.
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18. Detainees Support Committee (Pietermaritzburg) *Annual report, 1986-7*; Detainees Support Committee (Durban) *Bulletin* (October 1986), p.12. At Verena Police Station in Kwandebele detainees had to drink from a toilet bowl and sleep on 2 inch mats on stone floors in the context of poor diet and general overcrowding. See “Detention” *Work in progress* 56/57 (1988), p.34.
19. *Government gazette* 10281 (12 June 1986) GN 1196; S. Motala *Behind closed doors* (Johannesburg: South African Institute of Race Relations, 1987), p.14.
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25. J.D. van der Vyver “State sponsored terror violence” *South African journal on human rights* 4(1) (1988), note 50; *Weekly mail* 2(37) (19 September 1986), p.3; and 2(16) (25 April 1986), p.9.
26. After the revelation of 24 hours per day CCTV monitoring at John Vorster Square, Johannesburg, DPSC pointed out that it was the security police, not the detainees, who needed monitoring.. *Wee Detainees Parents Support Committee Newsletter* (June 1984).
27. S. Motala argues in *Behind closed doors* (Johannesburg: South African Institute of Race Relations, 1987), p.ix that the status of twelve ceased prisoners in the period 1963 to 1934 is not entirely clear, there is, however, strong reason to believe that they were detainees.
28. *Survey of race relations* (1978), p.116.
29. Detainees Parents Support Committee *Report* (April 1986); S. Motala *Behind closed doors* (Johannesburg: South African Institute of Race Relations, 1987), p.83.
30. *Weekly mail* 4(23) (17 June 1988) 2; and 4(33) (26 August 1988) 2. In the first eight months of 1990 five more political detainees died in custody. Three others who died appear to have been held for criminal offences, but their exact status is unclear.
31. Detainees Parents Support Committee *Report* (January 1986); *Weekly mail* 2(46) (21 November 1986), p.4. The Human Rights Commission recorded four babies born in detention in 1987 and 1988. See *New nation* 3(44) (10 November 1988).
32. *Weekly mail* 5(11) 23 March 1989, pp. 1-2.
33. *Weekly mail* 2(33) (22 August 1986), pp.1, 3.
34. *Weekly mail* 2(37) (19 September 1986), p.2; and 2(38) (26 September 1986), p.2.
35. “Detention” *Work in progress* 56/57 (1988), p.33.
36. *Anatomy of repression* (Johannesburg: Human Rights Commission, 1989), p.2.
37. *Weekly mail* 2(44) (7 November 1986), p.3; Detainees Parents Support committee *Annual report* (1986).
38. Five leading activists were sent to Robben Island in 1988 for sentences ranging from 5 to 12 years, but were released in late 1989 on a technicality concerning the conduct of the trial.
39. *Weekly mail* 4(39) (7 October 1988), p.2.
40. The NSMS, later re-named the National Management System (NMS), was apparently abolished by President de Klerk after his general election victory in September 1989.
41. *Weekly mail* 2(40) (9 October 1986), p.12; *Survey of race relations* (1985), p.446.
42. *Survey of race relations* (1985), p.463.
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44. *Weekly mail* 4(3) (29 January 1988), p.6.
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Reviewing Regional Policy

A discussion of the Urban Foundation's "Regional Development Reconsidered."

"Regional Development Reconsidered" is the third in the Urban Foundation's series of policy documents setting out its proposals towards "a new urban future". The main thrust of a number of these documents is to attempt to reorient development policy to a predominantly urban focus, and to an acceptance of large city growth. While the development of rural areas, small towns, and other nonmetropolitan areas is not entirely neglected, the focus of many of the documents published to date is on rationalising the urban emphasis, and developing policies to manage urban development. This is in contrast to past South African state development policies which have attempted to contain the development of the main cities, and have starved established urban areas of resources, focusing instead on pouring resources into the homelands.

"Regional Development Reconsidered" reflects this emphasis. Its main objective is to argue for the removal of the government's Regional Industrial Development Programme (RIDP) which is seen as a key element of the government's past development policy. The RIDP has developed and shifted over time, however, what has remained central are attempts to force and encourage industry to move to demarcated development points, particularly within homelands. These are either at a considerable distance from metropolitan areas (decentralisation), or, more recently on the 'edges' of metropolitan areas (deconcentration). Within Natal, the main functioning points are Ladysmith/Ezakheni and Newcastle/Madadeni (decentralisation), and Isithebe and Pietermaritzburg (deconcentration).

The bulk of the report is devoted to a critique of the RIDP, rather than to redefining regional policy, or developing a new framework for it. The alternative policy proposals are therefore the weakest part of the report. This partly reflects the Urban Foundation's laissez-faire approach and its discomfort with many aspects of traditional regional policy, most importantly, with attempts to develop economically weak areas, and to intervene in patterns of industrial location. Rather, their starting point is the centrality of economic growth in general, and a belief that this is best promoted in the largest cities. If other areas can develop particular sectors (agriculture, tourism etc.) on an economic basis, then they can be supported in doing so, but regional policy should not prop up 'lagging areas' as it has to often attempted to do internationally.

The RIDP has come under considerable scrutiny in the past decade. Numerous papers, reports and documents have attested to its inefficiency and ineffectiveness in developing poorer areas, and have pointed to its negative effects on the development of metropolitan areas. "Regional Policy Reconsidered" largely summarises this

literature. While a number of studies were specifically undertaken for the purposes of the report, they seem mainly to confirm the findings and arguments of the existing literature. As such, the report provides a fairly accessible summary of the literature on industrial decentralisation and deconcentration.

As in the general literature on this topic, the main lines of critique of the report are that:

- * The policy has been intimately bound up with the objectives of apartheid; it was largely set up as a support to influx control measures, and as a way of propping up the government's homeland policies. This has severely distorted the way in which policy has operated. While policies of industrial decentralisation elsewhere have proved to be problematic in various ways, in South Africa, there are additional problems as a result of the political context of the policy.

- * The policy is costly and inefficient in economic terms. the financial cost to the state has been enormous, however the economic benefits are rather dubious. Only 25000 jobs have been created, but at least half of these would have occurred spontaneously in any event, as a result of labour-intensive firms searching for cheap labour (particularly in the textiles and clothing industries). The effectiveness of state policy as such is debateable.

- * Growth in the designated points is largely unsustainable: the policy has subsidised both inefficient location and also firms which are marginal and could not survive without subsidy. In 34-42% of cases, firms will leave or close down once incentives are withdrawn. Further, these points are not attracting the type of industry which can act as 'magnets' for other industries. Most firms are small, marginal, labour intensive operations, with connections to metropolitan areas, rather than to the area they are located in.

- * The policy has had little positive effect on regional development. Growth within development points is weak and unsustainable, and has failed to induce generalised development processes. By concentrating only on industry, it has also neglected other sectors which might produce more sustainable growth. the RIDP has distorted patterns of growth within regions; it has artificially induced growth in some areas (often newly created towns within homelands), and has attracted development away from existing towns which may themselves be facing uncertain growth. The poor economic condition of the coastal metropolises (Durban, Port Elizabeth, East London, Cape Town) is cited as an example of this.

- * The policy has created very poor urban environments; there are few social facilities, and urban environments are generally sterile. In cases where development points have been created within homeland areas close to

existing urban areas (for example, Ezakheni – some 40km from Ladysmith), and in some deconcentration points (for example, Atlantis – some 40km from Cape Town) the policy has created a highly inefficient pattern of urban growth, which forces people into expensive and time-consuming commuting over long distances.

* The policy has failed to meet its objectives of slowing urban growth. It has had a negligible impact on migration to large cities. However, this objective is itself quite wrong. There is no 'optimal city size', and in fact South African cities are small by international standards. City size does not impede economic growth, nor are large cities necessarily more difficult to manage. The issue is one of the structure and management of cities, not their size. Deconcentration and other apartheid urban policies have actually exacerbated rather than solved these problems.

* Internationally, regional policies focusing on industrial decentralisation have been discredited. As in South Africa, they have not proved to be effective, and there is a shift away from them towards market-based 'bottom-up' development policies based on local economic development and comparative advantage.

There is much that is valid in this critique; industrial decentralisation has been intimately tied to apartheid objectives, and it has contributed to the creation of a highly distorted pattern of industrial and urban growth. Further, it has supported exploitative working conditions and practices, and has resulted in a poor quality of life for workers. The difficulty with the Urban Foundation's approach is at two levels. The first is at the level of analysis, and primarily certain detailed elements of analysis (1). The second, more importantly, concerns policy prescription. This will be the focus of our discussion here.

A central problem is that the document focuses overly on the issue of economic growth, at the expense of social concerns. While the document refers to issues such as poor urban environments, and inefficient patterns of urban growth, and to an extent to low skills and wages in development points, these are not the main concerns. There is no exploration of who has come to occupy these jobs and why they have done so. Presumably, this is assumed away as the result of influx control, but this does not explain why, five years later, and in areas such as Natal where influx control has been mediated by the proximity of homeland borders (2), these poorly paid jobs are still taken up. Because these people are not a central concern for the Urban Foundation, there is no consideration of how policy change will affect them, nor how their survival chances can be assured through alternative policies.

This is not a frivolous issue. Although the policy has not provided employment on anything like the scale necessary, it has been more significant than is sometimes assumed. In the 1980s, some 175000 jobs were created in a context of economic recession where the growth of industrial employment more generally has stagnated (Development Bank, 1988). Within a regional and sub-regional context, it has been even more significant. Nearly a third of all jobs created by the policy (28,3%) since 1982/3 are within Natal (Ibid.), and a number of towns in Natal have been dependant on the policy – either historically or at the present time. That it has resulted in a

distorted form of development in a number of these areas cannot be disputed. However, in at least some areas, the withdrawal of the policy is likely to have serious repercussions. The populations dependent on those towns are far larger than the number of jobs created would suggest. For example, there are some 290000 people in the functional subregion containing Ladysmith and Ezakheni. Not all of these people are dependant on the RIDP policy, however, levels of migrancy are relatively low, and industrial employment is the main form of employment in the subregion. These people cannot simply be forgotten: policy needs to focus more directly on the future of people in these areas. It cannot simply be assumed that they will easily find other alternatives, nor that the alternatives proposed by the Urban Foundation are alternatives for those people or those areas.

The Urban Foundation's policy proposals have two main thrusts. The first is the emphasis on regional development, and the development of towns and cities on the basis of their comparative advantage. Regions, towns and cities should develop the sectors in which they have a competitive advantage, and specialise in them. This implies a potential shift away from the present focus on manufacturing to other sectors such as a tourism, agriculture, and so on. The responsibility for development is shifted to the market and to the private sector, who are expected to play an active role in development. Regions, towns and cities would compete with each other for development, and for funding from central authorities. Weaker regions and smaller towns might also find new roles in supporting rural development activities, and would benefit from the more intensive development that land reform might bring about. Areas which could not support themselves would, however, still receive equal access to social services and transport.

Secondly, the development focus should shift from the smaller towns and weaker regions to the metropolitan areas and secondary cities – particularly those outside of the Pretoria-Witwatersrand-Vereeniging (PWWV) area. This may be assisted by a decentralisation of service and governmental functions, by improved urban management and infrastructural development, as well as by the removal of hidden biases in macro-economic policy which operate against these areas. To a certain extent, the emphasis of private-sector driven development, and on comparative advantage is also likely to accomplish this shift: there can only be few agencies (apart from homeland development corporations) in smaller towns and weaker regions capable of initiating the kind of development processes envisaged, and many such areas will battle to find their 'comparative advantage'.

The shift to the cities is in a number of respects an obvious and necessary one. It is undoubtedly the case that the controls on development, and inadequate finance and infrastructural development have led to poor conditions in urban areas, and may have undermined the growth of the comparatively weak coastal metropolitan areas and secondary cities. Further, as an earlier report shows, the majority of people are already, and will in future be, living in these areas. It makes sense to attempt to improve the management of these cities, and to make them more capable of dealing with the growth in numbers that will be expected in the future.

However, this does not mean that conditions outside of

the major cities can be neglected. Regional policy is not dealing with a clean slate – rather it needs to confront the issues and problems which have emerged as a result of past policies. These include the fact that many people do live in peripheral areas, and are dependant on ‘artificially’ created local economies with weak economic bases; and that in some of these areas there are problems of inefficient spatial and institutional organisation, deplorable living and working conditions and so on. This is not to suggest that the policy of industrial decentralisation has to be continued despite all its faults. Rather, at least one of the central starting points for policy needs to be the welfare of people in places created by apartheid, and the development alternatives that are available to them. This is not a concern for the Urban Foundation.

It is an irony that one of the supposed points of departure for the Urban Foundation (and one of its critiques of the RIDP) is that regional policy has tended to focus on place instead of people, and that this needs to be reversed. However, the Urban Foundation’s policy merely replicates this emphasis in a different way; it focuses squarely on the development of areas (through comparative advantage etc.), and ‘people’ concerns are hardly present. There is no necessary correspondence between where development through comparative advantage can occur and actual need, and there is no guarantee that people presently dependant on industry would be absorbed into the proposed rural development schemes. Similarly, policies to equalise access to social services are not necessarily sufficient to create alternatives for people either within the area, or elsewhere. Far more attention needs to be focused directly on the future of people in those areas and possible alternatives for them in both the short and long term.

Ironically, the focus on ‘comparative advantage’ and competition between areas might shift the focus of local and regional policy even further away from considerations of social need. It is quite likely to strengthen local business lobbies attempting to attract growth, and to allow business to play one town off against another. A possible result might simply be local economic policies which attempt to replicate what the state has previously done (ie, attract industry through financial inducements), except on a far weaker basis. Towns may feel compelled to deregulate on health or environmental regulations, with long-term negative effects. This is potentially a problem for large metropolitan areas as well as smaller towns.

An emphasis on comparative advantage is not necessarily the most secure economic basis for an area. It encourages economic specialisation, making the area potentially more vulnerable to change. The decline of the Port Elizabeth – Uitenhage (PEU) area, for example, can partially be attributed to overspecialisation and dependence on the motor industry, and therefore to its vulnerability to the industrial restructuring which has been occurring within that sector (see Bell, 1987) (3).

The emphasis on comparative advantage, and the reliance on markets is only one version of ‘bottom-up’ development. While there has certainly been a shift in policy thinking internationally away from a sole reliance on induced industrial development, and towards processes of endogenous and locally integrated development, the document presents a particularly conservative version of this approach. There are other approaches, with far more developmental connotations. In adopting a conservative approach, the Urban Foundation also neglects some of the more positive origins of regional policy, namely, a concern for the welfare of people in places affected by economic decline.

A final, and related issue needs consideration. The report assumes that without the distorting effects of the RIDP, and with the removal of biases contained in macro-economic policy, and certain infrastructural improvements, the coastal metropolises and secondary cities will bloom. Unfortunately, this may not be the case – the economic weakness of these areas may reflect deeper changes in industrial organisation, as in the case of PEU. Are similar processes of restructuring and relocation occurring in the textile industry in Durban? What will be the effect of technology changes on the clothing industry in both Cape Town and Durban? And of struggles around the motor industry in East London? The point perhaps is that large cities are not invulnerable to processes of economic decline (even without the ‘distorting’ effects of policy), nor is development static anywhere. From this perspective, the stated goals of the Urban Foundation’s policy – that is of promoting economic growth, and encouraging the development of a sustainable hierarchy of settlements do not sufficiently grasp the nettle of the problem of uneven development – legitimately the central concern of regional policy. □

NOTES

1. For example, there is a tendency to overgeneralise about trends in industrial organisation and location; there are contradictions in the explanation of growth in development points, and in discussions about the effect of incentives; and there is an uncritical acceptance of a hierarchy of urban centres, and processes of hierarchical filtration of development. This is much contested in the literature.
2. In many towns in Natal, the fact that there are KwaZulu areas within commuting distance means that people have been able to migrate to cities more easily than they have elsewhere – despite influx controls.
3. How PEU can then be cited in the Urban Foundation’s report as an example of poor linkages is something of a mystery!

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Tensions in the Educational Debate

Bill Nasson & John Samuel (eds) **Education. From poverty to liberty** Report for the Second Carnegie Inquiry into Poverty and Development in Southern Africa. David Philip, Cape Town, 1990. ISBN 0-86486-154-0.

This book seriously addresses two major, through intimately related questions, which face South Africa today:

- * How can education work towards the removal of inequalities in our society?
- * How can education assist people living in poverty?

In tackling this task each author takes one particular focus and the reader can then weave her/his own image of how successful future educational initiatives are likely to be in this country.

The book helps to meet an urgent need to provide material on which educational planning can take place. We need to move beyond the rhetoric of resistance to apartheid; that time is past. While not denying the need to work through the history of apartheid, we need now to put all our energies into devising strategies to effect the transformation of the education system into a just and equitable one. This book makes it abundantly clear that this is not just a question of pumping more resources into education. Fundamental restructuring is needed.

The volume is divided into three parts: Inside South Africa; International perspectives; and Strategies for action.

The plan of the first part is to paint a clear, chilling picture of the current state of education in South Africa. In beginning the task Samuel traces the history of 'Bantu Education' from the 1950s, through 1976 and into the school boycotts and protest of the 1980s. The account is succinct and well documented. It is supported well by Pillay's statistical picture of educational inequalities and underdevelopment in South Africa, although I do think that a synthesis of the two contributions into one would avoid repetition and provide an excellent overview of the history and extent of the current crisis in education.

Already, after these two contributions, a key element in the debate emerges: the concept of education as the vehicle for identifying, and refining appropriate values within society needing to be tied to the need for education as a contributor to the needs of the economy. This creates a strong tension which must be debated within a context of the huge pressure that the backlog in education has created. This tension continues and develops throughout the rest of the book.

The analysis that Nasson makes about the State's reformist strategies is an especially important contribution. While the de Lange (1981) report and the White Paper (1983) which eventually followed it do provide for increased resources for black education, there is no doubt that these reforms are based firmly within a

modernization perspective which does not question, indeed seeks to legitimize and strengthen, the existing power relations in society. Under this model, a meritocratic elite replaces a white elite as being the privileged class in society.

There is a clear plea that education within a new South Africa must not fall into this modernization trap. Yet, as Hyslop reminds us, we have a huge and increasing number of poorly educated and unemployed youth. There will be a very strong temptation in educational planning to put a lot of resources into emergency training schemes and not enough into fundamental restructuring. Hyslop suggests that the unions must enter the educational debate now.

Of course, as Nasson then points out, increased acquisition of education qualifications does not have any marked effect on levels of unemployment. His demolition of human capital theory is, to me, very satisfyingly done. There is a need to develop ways to break the certification stranglehold on education and link education to life – the life of work and the life of making meaning. The same tension between meeting the needs of the overall economy and the exploration of human values.

How can we apply these ideas to rural development? How can we prevent rural schools reaching for 'the straw of urban income mobility' (p 106)? The debate always becomes more nebulous at this point. This is not a criticism of this book, but rather an acknowledgement of the fact that new educational ideas and plans have come from the educational protests of the 1970s and 1980s – and these protests and ensuing dialogue have been in urban townships. If education is to seriously assist the majority of people living in poverty in South Africa, then models for rural schooling have to become central to educational debate and planning.

It may be for this reason that case studies of Cuba and Tanzania are included in the second part of the book. It is clear in both countries that educational changes alone cannot effect a democratic revolution in society. There is much talk at present on concentrating on primary education, on rural school expansion, on adult literacy, and these are all vital needs in South Africa. In both Cuba and Tanzania there were dramatic changes to the education system after independence along these lines. And these changes were successful in terms of mass literacy and a greater equity in resource distribution. However, in both countries the expectations placed on education were too high and other factors were not given due cognizance. The lesson of Cuba where economic pressures have

forced a return to more traditional patterns of education must be closely examined in South Africa. In Tanzania the prevalence of certain political and economic elites distorts the drive for democratic socialist development.

The concept of education with production, found in both countries, seems to offer the model which can accommodate the tension between assisting people to develop marketable skills and giving people the opportunity to explore the environment of their own lives. Just how this concept should develop in South Africa needs a great deal of exploration.

The firm plans offered by Reynolds for Zimbabwean education remind us that educational ideology needs to be translated into financial reality. That means, especially in an expanding population, a greater involvement of parents in financial and other terms in the education of their children. It seems unlikely that any government of this country in the foreseeable future will be able to afford free education on an adequate scale without backlash effects such as has been experienced in other developing nations in a process of social and political transition.

Part three, 'Strategies for action', contains two contributions. In the first Gardiner begins in a sense where Samuel left off – with the concept of People's Education. People's Education for People's Power: the slogan which replaced Liberation Now – Education Later, and has now developed from a slogan into the beginnings of a network of action for the transformation of education in South Africa. Gardiner focuses on People's English. He sees the development of a coherent language policy as essential if democratic dialogue is to take place. Without dialogue about the tensions in our society there will be no transformation. I agree with him.

The final contribution to the book is by Alexander who examines the spaces which already exist in the present education system where democratic innovation has already begun and where a great deal more can be done. He looks at the work of individual teachers, teacher unions, alternative education projects, and some private schools. I believe that from these initiatives will emerge the patterns which will direct the decisions to be made about the balance point between the various tensions in the education debate. In this respect I hope that this book is the forerunner to other monographs or journal articles which explore the experiences of people working here in South Africa. As Alexander suggests the sharing and

refining of experience is essential to appropriate development.

So what are my feelings about the value of the book? Events have moved significantly in South Africa since this book was published. But it is still of great value. Its strength lies in an examination of how the education system in South Africa has evolved and what are the problems we now need to address. This debate will be with us for some time. I certainly will find this book of immense value in teacher education courses.

One minor criticism. It is clear to me that the book is intended to promote dialogue and that I am sure it will do. The contributions can each stand alone as useful documents. And there are links which one can clearly make between them. Part of the process of debating these complex issues involves searching for the links between ideological and economic factors, between the history of an educational system and people's thrust for change, – in short between all the tensions that shape our society. As I have said earlier, it is only through dialogue around these tensions that meaningful change is likely to occur. However, I do think that more explicit cross-referencing between contributions or short discussions before each section could facilitate this process of dialogue and so enhance the value of the book. This would certainly be true for my own students who are teachers, both at pre-service and in-service levels.

One omission which I feel is a serious one is the silence about issues of environmental education. People living in poverty are living in degraded environments. They do not have access to clean water, secure housing, or adequate energy resources. Issues of environmental quality at both local and global levels are political issues and need to be addressed as such. The future of South African society will be determined by issues of water purity, of toxic waste disposal and soil erosion as well as by issues of justice and social equality. Educational transformation involves people having the awareness and skills to take greater control of the environment in which they live; this environment has political, social, economic, bio-physical and personal dimensions. As we become more aware of this totality and explore more the tensions inherent in it, then we have a greater chance of finding educational patterns to suit the needs of a transforming South Africa. □

Sound and Fury

P.S. Thompson: **Natalians First Separatism in South Africa 1909-1961**. Southern Book Publishers. 231 pp.

The 1911 Union Census records a population in Natal of 939398 Blacks; 133420 Indians; 98114 Whites and 911 Coloureds. Of those alive two years earlier, 11121 of the 14822 who voted (out of 25463 voters on the roll - overwhelmingly White save for a mere handful of Coloureds and Blacks) had taken Natal into the Union. Most of the White leaders - Sir Manfred Nathan (the Governor), Moor, Smythe, Greene, Hyslop, Morcom had really wanted some form of federal state but at the sessions of the National Convention which later gave birth to the Union, they were impotent. It is with the subsequent post-Union wailing, winge-ing and the gnashing of rubber teeth that this book is painstakingly concerned.

The author has been meticulous in his research and in his recounting of who voted for what and where and when. In his appendices he analyses the voting in 1909 (the Union Referendum); 1910 (the first election for the Union Parliament); 1933 (the Parliamentary and the Provincial Elections when the Provincial system was at stake) and 1960 (the Referendum on the Republic). These provide sufficient fixes from which to plot the ill-fated course of separatism in Natal until finally it wrecked itself on the rocks of reality.

He deals with the recurrent swells of White political emotion in –

- * the Natal League (1910)
- * The Natal Party (also in 1910)
- * The Federal League (1913)
- * The Democratic Reform League (1922)
- * The devolutionary League (1932)
- * The Hollander Memorandum Saga (1932)
- * The Dominionites (1933);
- * The Defendants of the Constitution (1951)
- * The Torch Commando (with which this bewildered reviewer rode in a jeep to Capetown: 1951)
- * United Democratic Front (no less! : 1951)
- * The Voice of Natal (1952)
- * The Natal Stand (also 1952)
- * The Federal Party (1953)
- * The Anti-Republican League (1961)

* and finally the mildly Gilbertian “Horticulturalists” (amongst whom the same reviewer was a humble sweeper of leaves).

In theory, all this is valuable “for the record”, but in reality to what avail? The proper question, of course, is how important is this record. Whilst strictly it is not the task of this reviewer to venture an answer to this particular question and, in any event, he suffers from the probable disadvantage of having known quite well a number of the players who strutted earnestly upon the stage towards the end of this provincial drama (and who, like Malvolio, had had greatness thrust upon them), nevertheless he proffers this answer. Some of the actors seem to have been mentally cross-gartered and – as victims of their origins – quite unable to accept the rapidity with which the Sun (contrary to Nature) was setting upon the British Empire.

Lurking behind Dr Thompson’s analysis of events, the problem of these late players (and the problems of those who blazed an ephemeral and atmospheric trail in earlier days) was that they never tried to understand, nor ever understood, the aspirations of the Afrikaners in whose hands and loins the power lay. Nor do they seem to have concerned themselves about the Coloured community; or the Indians – unless it was to try to stem “Indian penetration” by means of the notorious “Pegging Act” of 1942 or trade competition with the 1942 Licensing Ordinance. Most serious of all their ears did not hear, nor their eyes perceive, the now-no-longer-silent Black majority waiting in the wings.

This indeed is a tale (as Macbeth would have it) “full of sound and fury and signifying nothing”, told this time **not** by an idiot but by a careful historian with a United States teaching background.

Dr Thompson has rendered to the survivors of the Natalians First breed, and their descendants, a singular service by recording dispassionately the best efforts of many distinguished and well-intentioned, but unavailing, men of their times. □

