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INDICATOR SOUTH AFRICA

THE BAROMETER OF SOCIAL TRENDS

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INDICATOR
S O U T H A F R I C A

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Vice-Principal Colin de B Webb, Chairman of the Indicator SA Board of Management, passed away on 22 March 1992 after a long illness. The staff of Indicator SA will remember his enthusiastic participation in the Project's activities.

INDICATOR SOUTH AFRICA QUARTERLY REPORT

VOL.9 Nº2

AUTUMN • 1992

POLITICAL MONITOR

ECONOMIC MONITOR

RURAL & REGIONAL MONITOR

URBAN MONITOR

INDUSTRIAL MONITOR

FOR EVERYMAN'S NEEDS

In-depth analyses of the most significant events of South African politics and economics in the first quarter of 1992, the referendum and the budget, appear in this edition. In our political monitor, Lawrence Schlemmer comments on the referendum results and explores their longer term implications. In our economic monitor, Mike McGrath and Merle Holden evaluate the 1992-1993 budget tabled in mid-March. *Indicator SA* was held back from the printers for our two cover articles on these events.

Now that the hue and cry of a uniracial referendum has come and gone, however, South Africa can return to the serious business of multiracial constitutional negotiations. The last chapter in the era of exclusivist white politics opens the way ahead for a future poll of all communities to establish a truly national consensus on specific and fundamental political reforms.

While negotiations may narrow the political divide, they also serve to emphasise the profound economic schisms which remain in South African society. Policymakers and leaders of the major interest groups continue to struggle over the ingredients of an economic equation which will balance simultaneous needs for economic growth, equitable distribution and renewable resources.

A complex formula for sustainable development is required to reconcile people's differing needs in our rapidly changing society. This edition of *Indicator SA* focuses on those dimensions of the economic crucible upon which the implementation of socio-political reform depends. It is apparent that the issues are complex, inter-related building blocks in a search for pragmatic solutions.

The contributors to our theme of 'everyman's needs', within the constraints and opportunities of the South African political economy, focus on several key debates:

- Raphael de Kadt, NU political philosopher, sounds a cautionary note on the limitations of a social contract in a society marked by extreme political and socio-economic conflict.
- Andre Roux, UWC economist, discusses the prospects for a national economic accord between ANC, business and government in the ongoing policy debates on macroeconomic populism and 'growth with redistribution'.
- David Korten, international environmentalist, identifies the crises of economic growth, poverty and ecosystems on the agenda of the major 'Earth Summit' to be held in Brazil in mid-1992.
- Basil Moore, US economist, in a provocative essay written after a visit to South Africa, proposes a land tax as a mechanism for restitution for past injustices and for equity in future land distribution.
- Jan Steyn, Julian May and Catherine Cross, in three separate contributions, assess development strategies to promote intermediate urbanisation, agricultural productivity and efficient urban-rural linkages to reduce poverty.
- Simon Bekker looks at urbanisation planning in terms of meeting people's needs for security, shelter, employment and skills, especially in the impoverished shack belts surrounding South Africa's towns and cities.

In different ways, all of our contributors explore the specific meaning and practical content of 'development' in South Africa's modernising, urbanising communities. The illustration on our main cover attempts to convey the importance of a grassroots perspective on socio-political and economic change. It is a perspective we lose sight of at times behind theories and models.

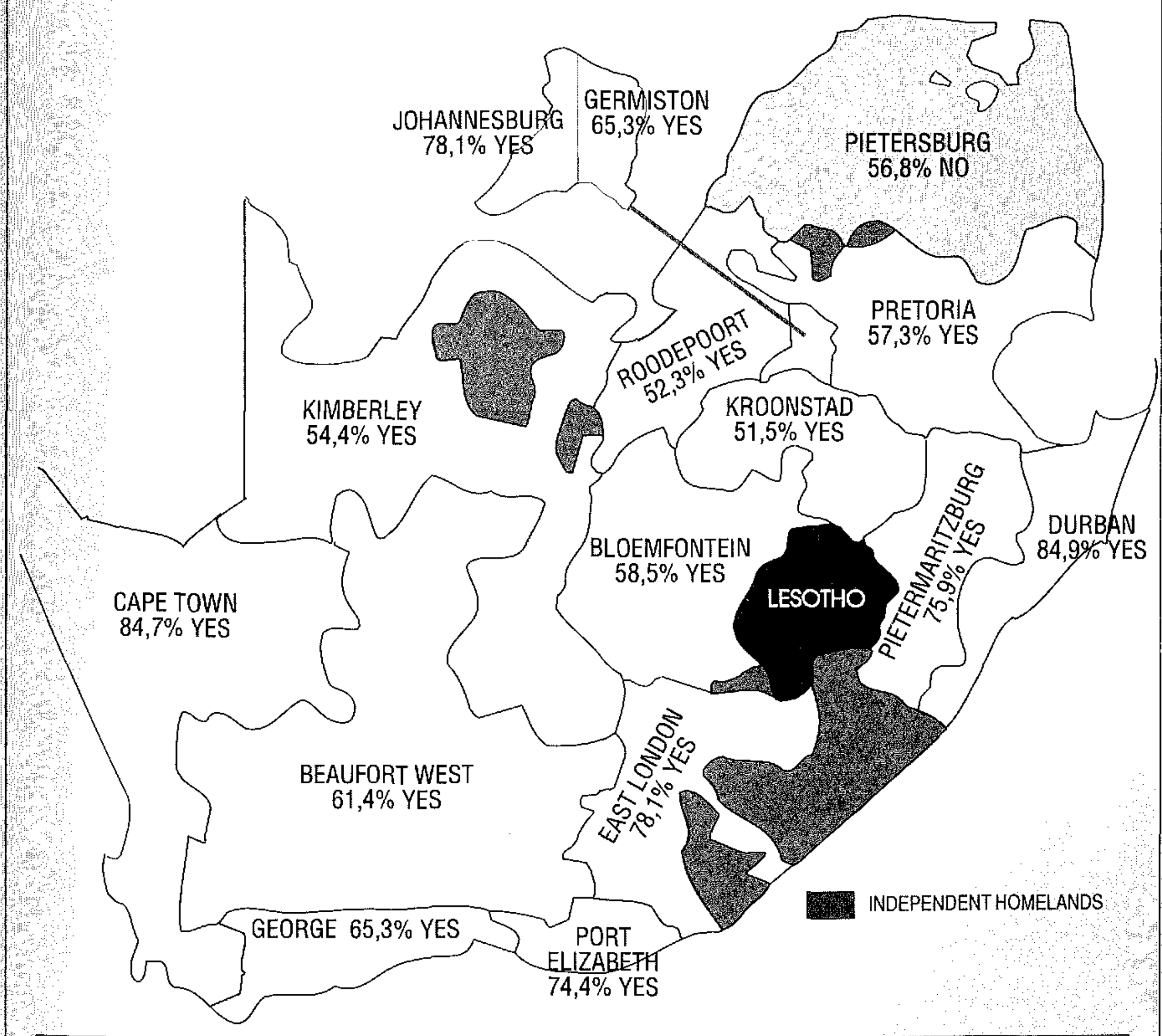
Our contributors emphasise the humanitarian side of development, for instance, in terms of meeting 'everyman's needs' and thereby building a more secure and stable society. They look at needs and expectations from the point of view of the farmer for whom land reform may mean new crops but increased risk, the shackdweller for whom electrification may mean warmth at night or light for reading, or the township resident for whom peace may mean security at last against the constant threat of losing life and possessions in civil conflict.

A tailpiece on a rather different note. We are delighted to report that renewed contact from abroad with South Africa has also led to a major surge in the overseas sales of *Indicator SA*. Regular readers may have noticed that the country's breakthrough from isolation has been reflected in a small way on our pages. Our number of international contributors increase with each edition, strengthening our coverage of issues with comparative experience and insight. Further, in late 1992 we will be collaborating on a special French edition (*Indicateur Afrique du Sud*), another first for *Indicator SA*!

Graham Howe, Editor
March 1992

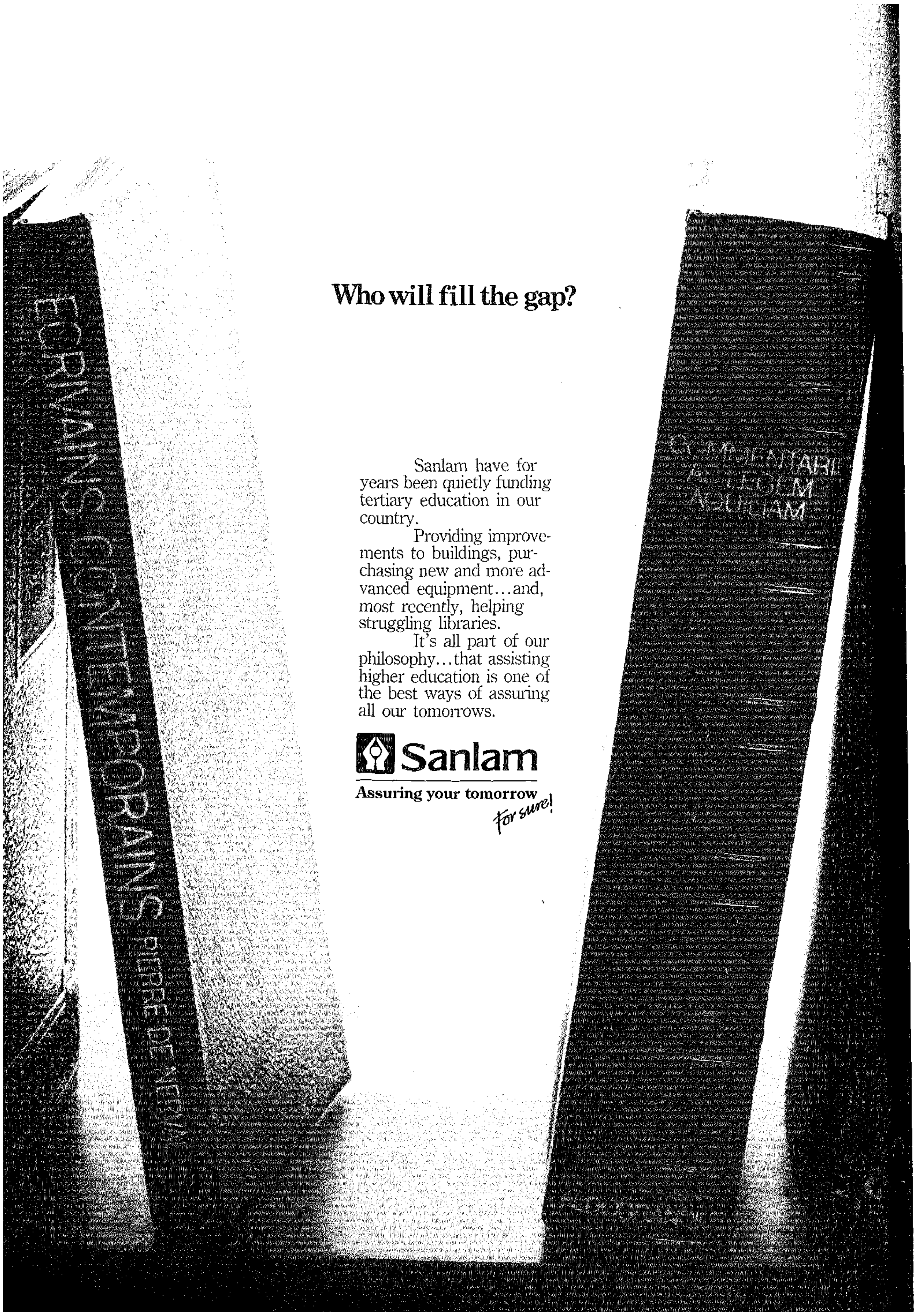
POLITICAL MONITOR

REFERENDUM RESULTS BY REGION



	YES	NO
The referendum held on 17 March 1992 posed this question to a whites-only electorate: *Do you support the continuation of the reform process which the State President began on February 2, 1990, and which is aimed at a new constitution through negotiation?*	1 924 186	875 619
	68,7%	31,3%

PERCENTAGE POLL 85,7%


Who will fill the gap?
Sanlam have for years been quietly funding tertiary education in our country.
Providing improvements to buildings, purchasing new and more advanced equipment...and, most recently, helping struggling libraries.
It's all part of our philosophy...that assisting higher education is one of the best ways of assuring all our tomorrows.
Sanlam
Assuring your tomorrow
for sure!
ECRIVAINS CONTEMPORAINS

CODESA AFTER THE REFERENDUM

Lawrence Schlemmer, Director, Social Dynamics, HSRC

The outcome of the 17 March referendum among white voters is by now a fact of history, albeit a remarkable one. Nearly 69% of these voters, in an 85% poll, endorsed a continuation of negotiations between major parties, leading to a new, racially inclusive constitution for South Africa. The major issues of interest now are what the consequences are likely to be for the negotiation process.

The most critical feature of the referendum result is what it entitles Mr de Klerk to claim or give away in the negotiations at Codesa from now on. Major contrasts in the interpretation of this mandate have already emerged.

Soon after the result was announced, Mr Nelson Mandela very boldly broadened the boundaries of the mandate by saying 'We now expect Mr de Klerk has been freed from all the political dilemmas of the NP, political dilemmas of their own making. We hope NP leaders will stop regarding themselves as leaders of an ethnic group but that they will regard themselves now as part of the leadership of the total population' (*Saturday Star*, 21/03/92).

Steven Friedman of the Centre for Policy Studies (*Business Day*, 19/03/92) speculated that the massive referendum majority could strengthen the hand of ANC hardliners who would insist that there is now less reason for the ANC to compromise.

Mr de Klerk himself, however, stated very clearly in his 'victory' speech after the referendum that 'I regard myself as bound to the mandate I obtained ...' (*The Citizen*, 19/03/92). This would be a mandate based on well over a dozen 'bottom line' principles which taken together would imply a future constitution fairly tightly packed with entrenched checks and balances, safeguarding all kinds of minority interests from the political prerogatives of a majority party in a future government.

Obviously, the negotiation process from now on will place this mandate as defined by de Klerk under pressure and he and his negotiating team will time and again have to refer back to the undertakings given in the referendum campaign. In so doing the NP will seek to use the large yes vote as reinforcement of its bargaining position. As Alan Fine points out (*Business Day*, 19/03/92), the opposing parties will dispute the fact that the yes vote was a vote only for the NP principles, arguing that the endorsement of negotiations was for a much more open-ended process. What then are the limits and flexibilities of the referendum 'mandate'?

The question takes one back to the perceptions and attitudes of white voters. The 69% endorsement of negotiations is most certainly not unqualified support for anything that Codesa is likely to produce.

In a very detailed survey of white voter attitudes based on a nation-wide sample in mid-1990, this author found that only 40% of whites at most were inclined to accept a loss of significant white or majority leverage in the political system. More specifically, over six out of ten indicated that full control over own affairs - by implication sufficient political leverage to determine what happens to white interests - was not negotiable. Some 50% of English-speakers were part of this commitment.

Research by the HSRC in early 1992 once again among a nation-wide sample of whites, predicted the extent of support of negotiation obtained in the referendum but in addition suggested that less than half the whites supporting negotiations felt that the outcome of such negotiations should be binding on parliament. Hence while negotiation is perceived as constructive, they expect the NP and other white leaders to assess the outcome before acting on it.

Another indication of a constraint in the mandate is white support for the ANC. John Aitchison has reviewed opinion polls conducted recently (*The Opinion Polls: how do the parties fare*? University of Natal, October 1991). What is clear from his range of poll findings, presented by some seven research organisations, is that virtually no support for the ANC exists among whites. By far the most favourable proportion of white support for the ANC was found in an Institute of Black Research investigation which, in terms of its own admission, was biased towards more educated respondents, and even in this instance support for the ANC among whites was only 7%.

A poll in November last year by Markinor, based on a comprehensive sample of rural and urban whites, showed the ANC to be the first and second choice among only 1% of whites.

These results and other impressions make it quite clear that whites most certainly did not endorse negotiations with a future ANC-dominated government in mind. The NP gave as its most fundamental reassurance that there would be 'power-sharing' in the form of guaranteed coalition government for the foreseeable future. NP spokespeople also gave the assurance that there would be no majority (or minority) domination. The vast majority of 'yes' voters were approving a system which would see Mr de Klerk and members of his cabinet featuring prominently in the seats of power.

The well-known saying that no party negotiates itself out of power, barring negotiations after defeat in war, is clearly the context in which white voters approached the referendum. A further indication is that the no vote was very substantially a replay of the 1989 general election. In other words, the people who reject de Klerk and the NP as the government of the country voted against the negotiations - the results in detail were more or less exactly what one would have expected had the referendum question been whether or not the NP should continue in government.

Parties to the left of the NP have disputed this interpretation, however, arguing that the yes vote was an endorsement of possibilities well beyond the role of the NP in a future government. The campaign slogan was that a 'yes vote was not only or necessarily a vote for de Klerk or the NP'. The problem with this interpretation is that most opinion polls show that support for positions and parties more 'progressive' than those of the NP amount to less than 10%. The November 1991 Markinor poll gives the DP (whose supporters were a component of the yes vote) only 8% support among whites.

Another challenge to the argument that de Klerk has a mandate which is conditional upon he and his party being part of a future government is based on the sheer size and enthusiasm of the yes vote and the high percentage poll. This is taken to suggest positive enthusiasm for the end of white rule. As far as whites are concerned, however, there is little to suggest abundant enthusiasm for a non-racial future.

In fact, one entirely plausible explanation of the large majority of yes votes is not an enthusiasm factor but a fear factor - fear of what would happen if de Klerk was not supported. The massive media advertising campaign in the days before the referendum - in the words of RW Johnson 'an unprecedented and brutal media blitz' (*The Star*, 21/03/92) - exploited this fear to the hilt.

The media theme of all manner of warnings of increased sanctions and isolation should the no vote win was given massive credence by spokespeople for overseas governments. There were indeed dire and credible warnings of the consequences of a no vote. Dr Treurnicht was not exaggerating wildly when he argued after the referendum that 'hysterical claims of the possibility of sanctions or a bloodbath and the ghost of unemployment were too much for many voters' (*The Citizen*, 19/03/92).

Broadly then, the referendum result appears to be in a sense a mandate for the NP and its likely alliance partners to negotiate to stay in power or to retain a share of power. The intensity and size of the endorsement, furthermore, was at least substantially based on a wish to avoid the penalties and uncertainties of a discontinuation of the current process of negotiations. The success of the yes campaign does not appear to enlarge the scope of the mandate to allow for large concessions by de Klerk.

The stage seems set, therefore, for tough negotiations ahead. The NP has been forced to restate, re-emphasise and recommit itself very firmly to preventing a 'majority rule' outcome. The ANC obviously must oppose this and do all it can to weaken the credibility of the NP position. The final tug of war in the settlement process is about to begin.

The Codesa negotiations, therefore, are set to see a very tense battle of wits and leverage over the depth and extent of minority rights and safeguards. The issue concerns not only ethnic safeguards; in fact the more contested issues are economic rights and safeguards in which minority interests have a strong vested interest.

Prospects for Codesa

Codesa has thusfar achieved, or seems set to achieve, substantial consensus on some elements of a future constitution which are broadly in line with the NP position. Devolution of powers to lower tier authorities, for example, seems acceptable to the ANC and the parties aligned with it. All parties accept the principle of proportional representation. A justiciable and entrenched Bill of Rights has also been agreed to in principle, as has the principle of a second chamber of Parliament to balance the composition and powers of the first chamber.

Further important agreement has been achieved on the continuation of the current parliament as the sole law-making body until it is replaced by the negotiated new constitution. In other words, while negotiations are in progress the current parliament will retain its prerogatives and function as the final arbiter of any decisions taken during negotiations. At the same time, however, agreement seems to have been reached on an interim council or state or equivalent structure which will in a sense supervise parliament and provide it with its agenda.

These achievements are significant but should not create the illusion that other critical issues will be as easy to resolve. Thus one may expect considerable contestation on issues such as:

- the inclusion of property rights and, possibly, certain other economic rights in the Bill of Rights;
- the protection of the occupations of current personnel in the civil service and security forces;
- provisions for certain powers over community-based institutions to be devolved down to neighbourhood level;
- specific powers to be devolved to the proposed new regional and local authorities;
- the composition of regional executive authorities, particularly the inclusion of representatives of homeland areas and of minority parties;
- the composition of the future cabinet. (Although the ANC and most other parties have accepted that it should include minority party representatives, the ANC appears to be committed to proportional representation in the cabinet, which is unacceptable to the NP constituency.);
- similarly, the NP still appears to be committed to a rotating State President drawn from a multiple person 'Presidency', which is unacceptable to the ANC and its alliance partners.

Possibly, very substantial conflict will arise in regard to time frames. The NP is as keen to establish an interim structure of government as soon as possible, particularly in order to get the ANC and the SACP to accept co-responsibility for difficult policy and administrative decisions. The ANC and its alliance partners, while broadly accepting the interim structure would see it as a very short-term arrangement, whereas the government could see advantages in prolonging it.

There is also lack of clarity at this stage and possibly disagreement about the body which should approve the details of a new constitution. Will this be the task of an interim structure or should there be an elected constituent assembly, which the ANC has demanded in the past?

The largest dispute of all, however, could arise over the first new constitution and the first elected new government and its tenure. The present NP government is bound to insist on provisions of the kind suggested above which the ANC will not be able to accept as permanent features. The ANC alliance will suggest that problematic issues be included as sunshine clauses which will fall away after a given length of time. The government may accept the principle of sunshine clauses but will wish to extend their validity for several years, in fact providing for an extended period of elected transitional government. One can understand that the duration of such *transitional* 'sunshine clauses' could lead to very intense constitutional dispute.

These are the issues of dispute. In terms of the commitments given in the referendum campaign the NP does not have much room for significant concessions on these issues. It has promised adequate protection for the minority position on each one of them. The organised structures and the rank and file of the NP know this, the civil service and the security forces know this and the right-wing opposition will have noted these assurances meticulously. It will be crucial for the NP to obtain very substantial white, coloured and Indian support in the first open election and therefore de Klerk and the top leadership are bound not only by conscience, but by political self-interest as well.

It would seem therefore, that both the referendum campaign and the expectations of the white constituency mean that the NP will have to present a variety of its requirements at Codesa as non-negotiables, at least in basic substance. This raises the issue of 'mandates' and constituency demands from another angle - that of the ANC and its alliance partners. How much room for concessions do they have? Is there a danger of the ANC being undermined from the left by the PAC?

At the level of its *rank and file* support the ANC has quite considerable flexibility. Firstly, it has very clear dominance as the favourite party among blacks. A November 1991 poll by Markinor among a sample of 1 300 metropolitan blacks, gave the ANC 72% of the support compared with only 5% for the PAC and the NP in joint second place. A similar survey by Markinor in June 1991 showed that the NP was as likely to be a second choice among blacks as the PAC.

This was essentially the same kind of result as one obtained by this author in May 1991 among a sample of 905 metropolitan blacks. A question was asked about how 'close' respondents felt to various political parties and organisations. Among people who would vote for the ANC as a *first* choice, the following proportions felt 'close' or 'very close' to the following other parties:

ANC voters who feel 'very close' or 'close' to:			
SACP	34 %	NP	65 %
PAC	27 %	AZAPO	32 %

It would seem, therefore, that such a large proportion of ANC supporters feel 'closer' to the government these days that there would hardly be a great danger for the ANC in making concessions in order to arrive at agreement with the government. This conclusion confirms earlier research by Dr Nic Rhoodie which suggests that some eight out of ten blacks see 'power-sharing' between black and white leaders in a future government as preferable to a black-dominated political system (DJ van Vuuren *et al*, (ed) *South Africa in the Nineties*, HSRC, 1991).

The major constraint on concessions by the ANC, and it is a very real constraint, lies in the expectations of activists and returned exiles within its own organised ranks. These 'middle levels' in the organisation include possibly a majority who, after so many years of struggle, would feel disinclined to support concessions to enable the NP to satisfy its constituency. The ANC must, therefore, resist at least some of the 'non-negotiable principles' put forward by de Klerk and his team. The ANC's organisational structure is certainly not in so sound a shape as to allow it to risk alienating many of its committed activists. The tug of war within the negotiating process over principles is therefore likely to be intense, if not brutal at times.

Finally, however, one development may take some of the pressure off de Klerk. Donald Simpson estimates that some 20-25% of CP supporters voted yes in the referendum (*Citizen*, 19/03/92). It has become common knowledge that some CP MPs want to enter Codesa and negotiate for substantial ethnic self-determinations at regional and local level.

It is very likely therefore, that a part of the CP, and possibly the whole party in due course, will enter the negotiation process. This is in fact essential in order to minimise the danger of right-wing insurgency and destabilisation of the process. If and when this occurs the NP will find that its position in Codesa in effect becomes more clearly the middle ground. The effect on the dynamics of Codesa will be to make the need for compromises in the centre between the ANC and the NP easier to demonstrate.

The question will then arise whether a working contract between the two biggest parties, the ANC and the NP will be good for an ultimate democracy. Big party coalitions have a dubious record in many parts of the third world. But that is a different topic. IPSA

SUSTAINABLE DEVELOPMENT

David Korten, President, People-Centered Development Forum, Manila

The environmental summits in Brazil will set the agenda to achieve more equitable and sustainable patterns of economic development

In the first two weeks of June 1992, representatives of virtually all the world's nations will meet in Brazil for the United Nations Conference on Environment and Development (UNCED), popularly named the *Earth Summit*. The official delegates will sign a charter spelling out basic principles for the conduct of nations and people with respect to the environment. They are also expected to ratify agreements on a variety of legal conventions relating to such matters as protection of the atmosphere and biological diversity.

Important as UNCED will be in setting the agenda for official action on a host of critical environmental issues, the more interesting and far-reaching debates on the state of the earth and its peoples will take place elsewhere. The '92 *Global Forum*, which will be held simultaneously in Brazil, is expected to attract some 25 000 private citizens and representatives of non-governmental organisations (NGOs). This is where issues not on the official agenda will be aired and where an agenda for a worldwide movement to establish more equitable and sustainable patterns of economic development will be set.

Emerging evidence suggests that the demands human economic activity places on the earth's ecosystem now exceed what that ecosystem can sustain

The challenge for both the official and unofficial gatherings will be to come to terms with a pervasive and rapidly deepening global crisis revealed not only in life-threatening environmental stresses, but also in a growing gap between rich and poor, increasing numbers of absolute poor, and a disintegrating social fabric. To date, the preparatory meetings of UNCED have focused almost exclusively on the environmental side of the environment and development agenda. Though some Southern countries have challenged this bias, the United States and other Northern countries have so far successfully argued that development issues are appropriately addressed in other established fora (over which, not incidentally, the North exercises far greater control).

Yet there is substantial reason to believe that the environmental crisis is inseparably linked to the development crisis and can be resolved only through a revolutionary change in our understanding of the relationship between human economic activity and the ecosystem and our perception of the nature of human progress. At the heart of the emerging controversy are three beliefs that have become so deeply embedded in contemporary mainstream development thought and policy as to be considered almost a modern theology:

- Sustained economic growth is both possible and the key to human progress.
- Integration of the global economy is the key to growth and beneficial to all but a few narrow special interests.
- International assistance and foreign investment are important contributors to alleviating poverty and protecting the environment.

These beliefs are increasingly coming under challenge and for good reason. The emerging evidence suggests that the demands human economic activity places on the earth's ecosystem now exceed what that ecosystem can sustain. To use a convenient shorthand term, we have filled the ecological space available to us. One of the most important turning points in human history has been reached; though we are only beginning to grasp the full implications of this, the problem and many of its consequences are now common knowledge.

We have loaded the earth's atmosphere with pollutants faster than natural processes can reabsorb them. As a consequence, the ozone layer that protects us from the sun's lethal rays is thinning, and massive climate changes that threaten to melt the polar ice caps, flood vast coastal areas, and turn fertile agricultural areas into deserts are likely to occur. The soils on which we depend to grow food for an exploding population are being depleted faster than nature can regenerate them. More and more localities face severe shortages of fresh water. Garbage is accumulating faster than we can find ways to dispose of it, while chemical and radioactive wastes are rendering more and more areas of the earth's surface unusable. Fossil fuels are being exhausted even as we continue to expand the economic activities dependent on them.

Economic growth and progress, as conventionally understood and measured, depend on increasing the flow of physical materials - such as petroleum, minerals, biomass, and water - through our economic system. We depend on nature to supply these materials and to absorb the resulting wastes. But we have now reached a point at which further advances in human well-being must be achieved without further increasing the economic system's physical throughput.

The implications of all this for a world in which more than a billion people live in conditions of extreme deprivation are profound. Further human progress, including the elimination of such deprivation, will depend on reallocating the ecological space that human beings have already appropriated. To survive and thrive, greater priority must be given to basic needs, wasteful consumption must be eliminated, and physical resources must be used more efficiently.

There is no real choice. If we do not bring our economic activity into balance with the limits of the ecosystem in an orderly way, nature will do it for us in a far more brutal way.

Business As Usual

In 1983 the United Nations set up an independent Commission on Environment and Development, widely known as the Brundtland Commission in recognition of its head, Gro Harlem Brundtland, the prime minister of Norway. Its assignment was to re-examine the planet's critical environmental and development problems and 'propose long-term environmental strategies for achieving sustainable development by the year 2000 and beyond'. The commission's report, *Our Common Future*, brought the environment to centre stage as a public policy issue and rapidly became the most important document in the sustainable development debate.

Our Common Future documented clearly and unequivocally the environmental devastation created by human society and the extent to which humans are dependent on the environment. It showed how economic growth as conventionally measured is heavily dependent on the ever increasing use of environmental resources and yet is deleterious to those very same resources. The report also documented the wasteful overconsumption of wealthy countries, the extent to which environmental destruction is both cause and consequence of poverty, and the extent to which current generations are depriving future generations of the possibility for a satisfying life because of waste, overconsumption, and exploding population growth.

The report singled out the environment's inability to continue absorbing the waste products created by our energy consumption as perhaps the single greatest threat to future development. On the prescriptive side, the report called for a more responsible use of environmental resources, a dramatic reduction in arms expenditures, the elimination of poverty, and greater use of multilateral approaches in dealing with environmental issues. In all these respects, the commission's report made a seminal contribution in moving environmental concerns from the periphery to the center of the policy agenda.

Yet it also revealed many of the glaring contradictions that continue to plague efforts to reconcile the perceived imperative of economic growth with the finite nature of the earth's ecosystem. Though *Our Common Future* was billed as a major challenge to conventional development perspectives and purported to integrate environment and development concerns, many of its conclusions reaffirmed the fundamental premises of conventional development thinking, in particular the stress on economic growth above all else. 'If large parts of the developing world are to avert economic, social, and environmental catastrophes, it is essential that global economic growth be revitalised', the commission concluded.

The Brundtland report's key proposals - a call for the world's economic growth to rise to a level five to ten times the current output and for accelerated growth in the industrial countries to stimulate demand for the products of poor countries - fundamentally contradicted its own analysis that growth and overconsumption are root causes of the problem. Where ecological reality conflicted with perceived political feasibility, the latter prevailed. Thus, the world's ruling elites were reassured that the best way to resolve our environmental crisis is for the rich to increase their consumption to prime the growth engine. What the commission's own analysis had demonstrated to be the problem suddenly became the solution.

Perhaps no agency has more fully epitomised the business-as-usual response

If we do not bring our economic activity into balance with the limits of the ecosystem in an orderly way, nature will do it for us in a far more brutal way

The Brundtland commission's report made a seminal contribution in moving environmental concerns from the periphery to the centre of the policy agenda

The World Bank report regards economic growth as the means to establishing the resources necessary for environmental protection

to the growing social and environmental crisis than the World Bank. The 1991 edition of its annual report on the state of global development, *World Development Report 1991: The Challenge of Development* (WB 1991), presents what the Bank believes to be the major lessons of the past 40 years of development experience - that accelerated economic growth and integration of the world economy are the keys to human progress.

The report is also evidence of the Bank's continued faith in the premise that growth, development, and improved human well-being are synonymous, and that Gross National Product (GNP) is their measure. The Bank argues that increasing the incomes of the rich to expand demand for the products of the poor is a key to overcoming poverty, but the Bank's analysis suffers from none of the ambiguities and contradictions found in the Brundtland Commission's presentation of a similar conclusion.

The Bank's report takes no note of the growing competition between rich and poor for a declining resource base. In assessing the reasons why economic growth in the 1980s fell below World Bank projections, the possibility that environmental constraints might have been a contributing factor is not raised. Indeed, the central point that *WB 1991* seeks to establish regarding the environment is that only through economic growth can the resources required for investments in environmental protection be generated. In other words, growth is treated as basically a precondition for environmental protection. The possibility that growth itself has contributed to environmentally destructive practices is not mentioned in *WB 1991*.

The United Nations report illustrates how reallocating existing financial resources and increasing the efficiency of social service delivery can improve human development

Development Index

One of the better official contributions to the sustainable development debate from among the multilateral development agencies is the series of human development reports initiated by the United Nations Development Programme (UNDP) in 1990. These reports look beyond conventional measures of GNP in an effort to establish a more meaningful index of human wellbeing and progress. A human development index is assigned to each country based on measures such as educational attainment, life expectancy, personal income, and progress toward the elimination of absolute poverty.

UNDP's data and analysis build a convincing case for the conclusion that high levels of economic output are neither necessary nor sufficient to significantly reduce human poverty and deprivation. For example, the report presents data showing that Saudi Arabia's literacy rate is lower than Sri Lanka's, despite the fact that its per-capita income is 15 times higher. Brazil's child mortality rate is four times that of Jamaica, even though its per-capita income is twice that of Jamaica. The report attributes such disparities to differences in how services and job opportunities are distributed. 'If a better link is to be created between income and human development, it is mandatory to adopt policies that distribute these economic assets and opportunities more equitably', it concludes.

To demonstrate that industrialisation and high levels of economic output offer no guarantee of advanced human well-being, *UNDP 1991* notes that in the wealthy market-oriented industrial countries, 100 million people still live in poverty, while another 100 million live in poverty in the centrally planned industrial countries of the Soviet Union and Eastern Europe. It also calls attention to the unravelling of the social fabric that accompanies industrialisation as the ties of family and community are sundered. *UNDP 1991* further establishes that even relatively poor countries could significantly advance human development by merely reallocating existing financial resources away from military spending and public enterprise subsidies and increasing the efficiency of social service delivery.

Its basic message is that rising national income is no guarantee of rising human well-being. Yet scattered throughout the text of *UNDP 1991* are variations of the apparently obligatory catechism that 'economic growth is essential to human resource development' all in seeming contradiction of the report's own evidence and analysis. This affirmation of faith is reportedly a direct response to concerns expressed by the World Bank and others that UNDP might be deviating from the politically correct view that growth is the central enterprise of development.

While *UNDP 1991* seems at one level to echo the Bank's perspective on growth and trade, there is a refreshing difference. It focuses on the importance of growth in the Southern countries without suggesting, as does the Bank, that the rich have a duty to consume ever more as their contribution to uplifting the poor.

UNDP 1991 also demonstrates a far stronger and more consistent concern for environmental sustainability, equitable distribution of benefits, and broad-based political participation. Furthermore, its discussion of protectionism focuses squarely on Northern barriers that exclude Southern exports. The report does not call for a unilateral removal of import duties by Southern countries as a stimulus to their economies (as recommended in *WB 1991* and often demanded by the Bank's structural adjustment packages). Nor does it claim that the path to prosperity for Southern countries lies in their greater integration into the global economy.

Overall, *UNDP 1991* takes an important step toward offering an alternative perspective to the official doctrines of the World Bank, IMF and GATT. However, in its haste to affirm the growth catechism, *UNDP 1991* fails to acknowledge and analyse the fundamental conflict between economic growth and sustainability. Ironically, probably the most important recent contribution to this basic task comes from within the World Bank itself.

Building on Brundtland

Only a few months after *WB 1991* was released with the usual fanfare, the World Bank's Environment Department quietly issued a working paper 'prepared for internal use'. *Building on Brundtland* presents an assessment of the global development experience sharply at odds with the official Bank orthodoxy set forward in *WB 1991*. The essays are carefully documented and well-reasoned, and its contributors include two Nobel laureates in economics - Jan Tinbergen (1969), and Trygve Haavelmo (1989).

This revolutionary document makes the case that conventional economics and many of the policies it espouses have been rendered obsolete by a fundamental change in the relationship between economic activity and the earth's ecology. Its basic argument is both simple and deeply disturbing. Human society has built its economic theory and institutions on the premise that the total demand that human economic activity places on the environment is inconsequential relative to the environment's regenerative capacities. In short, contemporary economic theory and policy assume an 'empty world.'

We now face a new reality. In the opening essay, Goodland presents alarming data on global warming, ozone depletion, land degradation, shrinking biomass, and waning biodiversity in making the argument that human activity has grown to the point at which it now either fills the available ecological space or will within a few more years.

Dissenting economists in the World Bank argue that human economic activity has outgrown the environment's regenerative capacity

The authors of *Building on Brundtland* argue that our new full-world reality means we must come to terms with the basic distinction between growth, which 'means to increase in size by the assimilation or accretion of materials,' and development, which 'means to expand or realise the potentials of; to bring to a fuller, greater or better state'. They explicitly dismiss *Our Common Future's* argument that growth can alleviate poverty in the absence of a radical commitment to redistribution. Assuming it were environmentally feasible, which it is not, the across-the-board 3% annual growth in income proposed by the Brundtland Commission would do remarkably little for the poor, they point out:

> *[A]n annual 3% global rise in per capital income translates initially into annual per capita income increments of $633 for USA; $3,6 for Ethiopia; $5,4 for Bangladesh, $7,5 for Nigeria; $10,8 for China and $10,5 for India. By the end of ten years, such growth will have raised Ethiopia's per capital income by $41 . . . while that of the USA will have risen by $7 257.*

Growth does not necessarily eliminate poverty. On average the additions to global economic output achieved during each of the past four decades have matched total economic growth since the beginning of civilisation until 1950. Yet during these four decades of unprecedented growth, we have also seen unprecedented increases in the numbers of absolute poor and the rate of environmental destruction, and arguably unprecedented disintegration of the social fabric.

The last four decades of economic growth have also seen unprecedented increases of absolute poverty and environmental destruction

Jan Tinbergen and Roefie Hueting take issue in their contribution to *Building on Brundtland* with those who maintain that sustained economic growth can be achieved by expanding economic activity that is not harmful to the environment. They point out that there are two ways to increase economic output. One is to increase the number of people who are employed, which generally contributes little to growth on a per-capita basis. The other is to increase the productivity - the value of output per worker - of those already employed, which historically has been the major source of growth. About 70% of economic growth

Sustainability does not depend on ending human progress but on abandoning the myth that erroneously equates such progress with growth

through productivity increases has come from the 30% of economic activity that is environmentally the most harmful - notably the oil, petrochemical, and metals industries; agriculture; public utilities; road building; transport; and mining.

Building on Brundtland also takes issue with those economists who have long argued that market forces will correct for any problem of scarce or diminishing resources by pushing up prices and thereby encouraging the use of substitutes. This argument may hold true to some extent in the case of depletable physical resource inputs such as petroleum and copper, but it is clear that the market cannot automatically correct for limits on the environment's ability to absorb the pollution of our economic processes (what the authors call 'sink constraints'). When a producer dumps pollutants into the air or water, the costs are passed on to the community; the producer's own costs are not increased. Therefore there is no automatic market incentive for the producer to take corrective action. *Building on Brundtland* notes that in general we are finding that sink constraints such as greenhouse gases, ozone depletion, and air and water pollution pose a more immediate ecological limit to economic expansion than does the depletion of physical inputs.

Daly, in his essay on the historical turning point from what he calls empty-world to full-world economics, suggests one reason why neoclassical economics has not come to terms with the implications of this fundamental shift in reality. Neoclassical economics is blinded by the commonly accepted premise that man-made capital can serve as an almost perfect substitute for natural capital. In fact, natural and man-made capital often behave more like complements than perfect substitutes. The fishing boat is useless without the fish. The saw mill has no function without the forest. Natural capital has been the limiting factor throughout most of human economic history, now more than ever.

The Growth Myth

Today, investment in natural capital has become at least as important as investment in man-made capital because of the perilous state of the environment. Past high rates of return to manmade capital were possible only with unsustainable rates of use of natural resources and consequent (uncounted) liquidation of natural capital. The new era of sustainable development will not permit natural capital liquidation to count as income and will consequently require that we become accustomed to lower rates of return on man-made capital.

To raise the importance of natural capital to that of man-made capital will require a fundamental shift in how we live and in how we think about returns on investment. Historically, economic progress has been based on the ever expanding colonisation of ecological space to increase the physical throughput of the economic system. The resulting depletion of natural capital has been disregarded, and much of the resulting consumption has been extravagantly wasteful. To reverse this perilous trend, *Building on Brundtland* argues that development 'by the rich must be used to free resources . . . for growth and development so urgently needed by the poor'. Moreover, economic policy 'will have to suppress certain activities in order to allow others to expand, so that the sum total remains within the biophysical budget constraint of a nongrowing throughput'. In short, the rich must dramatically alter their way of living to reduce the demand they create for high levels of physical throughput of the economic system, a conclusion exactly opposite of that reached by the *WB 1991* report.

The extensive opportunities that exist for reducing waste and overconsumption without a sacrifice of lifestyle are suggested by the differences in consumption patterns among industrial societies. The first step toward a sustainable human future must be to break the grip that the growth myth retains on our thinking and institutions. Growth centred development is itself inherently unsustainable. Sustainability does not depend on ending human progress, only on abandoning the myth that erroneously equates such progress with growth.

For the most part, official development agencies around the world have responded to the environmental crisis by labelling themselves green, putting out a call for additional funds for environmental projects, and resuming a business-as-usual commitment to accelerating economic growth. The premises underlying this commitment and the possibility that there might be fundamental conflicts between the existing policies and the imperatives of sustainability remain largely unexamined even by those now preparing for the upcoming *Earth Summit* and *'92 Global Forum* in Brazil in June 1992. IPSA

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THE FRAGILE METAPHOR

Inside the Social Contract

Constitutional negotiations in contemporary South Africa are often couched in terms of the classical metaphor of the "social contract". A political philosopher examines the two streams of thought on the social contract - as a mechanism to regulate conflict and maintain order, or as a mechanism to promote freedom and redistributive justice. Can both these objectives be reconciled in a society marked by extreme political and socio-economic imbalances?

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At the outset it is useful to say something about the historical origins and meaning of the term 'social contract'. It will make clear the ways in which the term may legitimately be built into the vocabulary of regulative political and economic practices in a democratic South Africa; for, if taken seriously, the idea of a social contract has democratic implications of a number of specific kinds.

Social contract theory has a long and impressive history stretching from its early formulations in the writings of 17th century thinkers such as Hobbes and Locke through its re-formulation in the 18th century in the hands of thinkers such as Rousseau and Kant, to contemporary philosophers such as John Rawls.

In what, then, does a theory of social contract consist, and what are its implications?

The social contract can best be understood as a theoretical solution to what can, perhaps, be most usefully defined as 'the problem of co-ordination'. This problem can be seen under two principal aspects. The first is the problem of co-ordination seen primarily as a problem of *order*; the second is the problem of co-ordination seen primarily as a problem of *freedom and distributive justice*. The former is emphasised in Hobbes' Leviathan; the latter is emphasised in the Rousseau-Kant-Rawls tradition.

It is important to stress two features of both strands of social contract theory. The first is that underpinning social contract theory are several assumptions - namely, that human beings, either as individuals or groups, are driven in their actions by the attempt to satisfy interests; that there is necessarily a relative scarcity of the goods needed to satisfy these interests; and that human beings are rational agents able to construct rules to address the problem of scarcity. In other words, the rules of co-ordination can be negotiated.

The second feature is that social contract theory is essentially a phenomenon of modernity. It assumes that people are responsible for articulating the rules of association and norms of interaction by which their lives are regulated; the normative order of society is not, in this view, given externally; laws are not inscribed in the cosmos, waiting to be disclosed. Rather, they are produced by human beings conceived of as agents or historical 'subjects'.

The social contract should harmonise private interest and public good, individual autonomy with public authority

An aspect of social contract theory that is often neglected is that with the exception of some more narrowly construed Hobbesian versions, the idea contains a clearly *normative* content. It is not simply some mechanical or instrumental device through which conflict destructive of life, liberty and property can be tamed. Rather, although containment of conflict is clearly one of its aspects, it contains the elements out of which the dominant modern conceptions of self and citizenship are constructed. Parties to the contract are seen in their basic or essential characters as free, rational and equal.

Consequently, the rules of political and economic association must facilitate rational will formation. They must specify the procedures in terms of which rational consensus - given circumstances of conflict and scarcity - can be reached.

In other words, the contract should issue in a framework in terms of which the autonomy of the individual and the authority of the public domain can be reconciled; a framework, that is, in terms of which the pursuit of private interest and the realisation of public good can be harmonised. Thus, in being party to the social contract, the citizen must of necessity be subject to its disciplinary constraints. It is, in other words, an agreement which legitimates discipline, for rights entail duties and freedoms obligations.

The capacity for conflicts of interest in urbanising and industrialising societies to work to the collective disadvantage of the society should not be underestimated

Prescriptive Ingredients

What I should like now to attempt is to distil the essence of contract theory into a number of prescriptive statements about how contract based institutional arrangements might be defined:

- First, the institutionalisation of contract theory must issue in a *Rechtstaat.* A Rechstaat is the political apparatus through which law, understood not as the juridical embodiment of particular interests, but of universal or common interests can be expressed.
- Second, it requires a political culture which emphasises tolerance, adherence to procedural rules, discursiveness and communicative competence, implying a communicative model of power.
- Third, the accountability of incumbents of offices should also be institutionalised, as should the principle of negotiating rules by the citizens/subjects.
- Fourth, in distributive terms, it should embody the principle - borrowing Rawls' language - of 'justice as fairness' - with its presumption in favour of equality.

How can this metaphor of the social contract be translated into practices and institutional forms that, first, apply in general to modern political and economic systems and, second, to South Africa?

The problem is that modern political and economic systems are characterised by power imbalances between the wealthy and poor, the skilled and less skilled, and those with greater or lesser market and political capacities. The modernisation process is also associated with the increasing differentiation of institutions and functions, and the corresponding tendency of groups, classes or clusters to become claimants for bounty or advocates of arrangements designed to further their particular interests.

In practice, this means that the danger always exists that certain, specifically weaker, interests might be excluded from the process of consensus building; this would, of course, undermine very substantially the principle of fairness or equity. Furthermore, if the political culture is fragile and the demands on the system overload its delivery capacities, the framework of co-operation might break down.

It is in response to precisely these problems that many of the distinctive institutional forms of modernity came slowly to be constructed. Among these are constitutions characterised by the separation of powers and justiciable bills of rights. Other arrangements less commonly referred to are those designed to institutionalise conflict - such as corporatist arrangements - and those built to contain risk and underwrite trust. These can best be seen in terms of abstract systems of trust and expertise which serve to limit the existential insecurity of those who participate in modern systems of power and production.

Regulating Conflict

The potential for conflicts of interest in urbanising and industrialising societies is considerable, and the capacity for such conflicts to work to the collective disadvantage of the society is also not to be underestimated. Such conflicts are not necessarily destructive; indeed, appropriately institutionalised, such conflicts may be generators of progress.

Without conflict, progress in terms of expanding human productive *and* interactional potential would be impossible.

The point, however, is that conflict - *pace* Marx - cannot be transcended, at least in the foreseeable future; thus a society beyond class conflict and thus beyond justice and beyond the need for conflict regulation cannot be envisioned. The question, then, is how to regulate or institutionalise conflict so that it leads to positive as opposed to negative or zero-sum outcomes for those party to it.

To coercively police conflict is less effective than to creatively institutionalise it. And, of course, creatively to institutionalise conflict - whether it be between classes or within classes - is always easier when the total product available for disbursement is larger rather than smaller, when the gap between expectations and available resources is narrower rather than wider and when those party to conflict have internalised an ethic of what could be called 'strategic restraint'.

Thus, all things being equal, the more rapid the rate of growth in an economic system, the more effectively the institutionalisation of conflict can be secured.

There are, however, some conflicts that cannot be institutionalised, some parties that cannot be brought to see any advantage accruing to themselves through participating in processes of rule negotiation. In very general terms, these are parties or interests that can be defined as the 'losers' in processes of societal modernisation. Historically, they have come to be associated with the downwardly mobile who constitute the core of right-wing radical movements, some conservative rural constituencies, and discontented 'lumpenproletarians' for whom the prison, the asylum, the poor-house become the great disciplinary containers.

The metaphor of the social contract is thus fragile. It adequately captures the processes of negotiating arrangements for political and economic co-operation only so far as the conditions for such negotiation obtain.

Where social and political turmoil is too great, where an economy is in a state of desperate disrepair and where *reasonable* parity does not hold between the parties to the co-operative pact, a social contract expressing relatively unconstrained willingness to abide by appropriately authored agreements is difficult if not impossible to create.

Where social and political turmoil is too great and where reasonable parity does not hold between the parties to the pact, a social contract is difficult if not impossible to create

A Modernising Coalition

A social contract arrangement should not be confused with some grand scheme of social engineering; for, as we all know, the great catastrophes of the 20th century have all been manifestations of the consequences (intended or unintended) of such schemes. Instead, it should be seen as a metaphor regulative for an open society, the rules of which are constantly open to negotiation and re-negotiation by self-reflective social agents. Commitment to it must indeed become a defining element of their social and political identities.

In conclusion, what are some of the specific questions that arise with reference to the institution of a social contract type arrangement within South Africa?

First, will the potential principal parties to such an arrangement be able to ensure the commitment of their constituencies to it?

Second, which categories of losers - those not party to a 'modernising coalition' - will be excluded? How disruptive and, perhaps destructive, of such agreements will their exclusion be?

The challenge confronting South Africans is to find ways of balancing the need for minimally coercive order with the need for distributive justice

Third, will their exclusion not, perhaps, undermine the very spirit of a new deal which, as Steven Friedman has so eloquently put it, will need to involve an exercise in 'entitlement administration' - and not merely the administration of particular constituencies' entitlements, but those of all members of the society?

Finally, how capable will the institutions of the society - both statal and non-statal - be of delivering that which the agreements, forged within an already legitimate and agreed upon procedural framework, have promised? For if they are not so capable, the framework itself - the procedural core of the system - will collapse under the weight of unfulfilled expectations.

In short, the challenge confronting South Africans is to find ways of balancing the need for minimally coercive order with the need for distributive justice and freedom under conditions of relatively severe economic scarcity and political volatility. IPSA

TOWARDS AN ECONOMIC ACCORD

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Current debate on the political economy is dominated by the relative merits of two competing conceptions of development, namely, 'growth through redistribution' or 'growth with redistribution'. It is argued here that the latter path provides the only framework within which to situate realistic questions of economic growth. The author goes on to assess the prospects of the main interest groups reaching consensus on the policy preconditions for economic growth.

The uncertainties created by the transitional nature of the present growth phase in South Africa are potential obstacles to reaching a growth accord. It will be especially difficult for competing interest groups to resolve their differences if they are unclear as to which options for economic growth are feasible.

The distributional characteristics of any growth path have an equally important bearing on negotiations relating to economic policy. South Africa will have to face up to a daunting redistributive challenge. The present racial distribution of income, quite apart from any normative issues, is obviously a destabilising influence and a potential source of disruptive conflict. A consensus on growth will not emerge unless it simultaneously addresses the distribution question.

Disputes about economic strategy will become a permanent and prominent feature of the political process in South Africa

A national accord based on feasible growth and redistribution strategies is not beyond our grasp. This does not mean, however, that agreement on specific growth policies will be easy to achieve. On the contrary, it can be safely assumed that disputes about economic strategy will become a permanent and prominent feature of the political process in South Africa. But there are encouraging signs that this contest will occur within parameters which are mutually acceptable to the major players in the economy.

Macroeconomic Populism

The growth through redistribution strategy, otherwise known as macroeconomic populism, has several historical precedents, especially in Latin America. It usually occurs in countries characterised by intense income inequality, and often follows a lengthy period of economic stagnation. The major themes of the approach include:

- *Reactivation and redistribution* on the basis of a major fiscal expansion. It is argued that this need not be inflationary as it is assumed that excess capacity exists.
- *Redistribution* through the introduction of minimum wages and price controls, both of which are aimed at raising real wages and squeezing profits. This is meant to stimulate the demand for basic consumer goods, which is then supposed to generate sufficient economies of scale to enable firms to remain viable.
- *Restructuring*, but without resource to devaluation, directed at reducing import dependence and expanding exports. It is also claimed that a redistribution of income will alter demand patterns and alleviate pressure on imports.

In Zimbabwe, increased public expenditure, coupled with two bumper agricultural seasons and renewed access to foreign exchange, induced accelerated growth during the immediate post-independence years. Real wages were also pushed up sharply with the aid of minimum wages and price controls. But the initial expansion soon became unsustainable as imports soared and a tight balance of payments constraint emerged. This compelled the government to introduce tough exchange controls, which had a crippling effect on industry since it became extremely difficult to secure essential inputs.

The subsequent contraction, although triggered by poor agricultural harvests, became unrelenting as investment spending dwindled to a halt, the budget deficit escalated into doubled figures, and per capita incomes declined to pre-1980 levels. The Zimbabwean government has now embarked on a conventional structural adjustment programme to correct the fundamental imbalances in the economy.

The prospects for the future are encouraging since the Mugabe government stopped short of the more extreme forms of populism practiced in Latin America. The latter experiments invariably ended in a tragic climax consisting of hyperinflation, capital flight, demonetisation and tax erosion. The great irony of the growth through redistribution programme is found in the fact that the people who are meant to benefit directly end up by suffering the most since capital is mobile and can flee from poor policies, whereas labour is trapped.

Since many of the excesses of macroeconomic populism can be ascribed to over-activation of the economy, one is tempted to consider whether gradual demand-led growth strategies might not be more successful. The Old Mutual-Nedcor scenario, for example, advocates a 'kick-start' for the economy based on a housing and electrification programme. But the scenario argues that reactivation should be combined with genuine growth-oriented policies to alleviate domestic and foreign bottlenecks. The latter is an absolute precondition for the success of the strategy. Although the plan could work and deserves to be considered seriously, there is no escape from the high risks associated with any artificial reflation in an open economy.

The prospects of moderated wage-initiated growth through redistribution programmes are more dubious. The redistributive benefits of mild real wage interventions are by definition small. But the costs will still be large as any administrative attempt to force up wages must inevitably degenerate into a regime of over-regulation.

Inward industrialisation is another variant of growth through redistribution that has gained in popularity. It is argued that urbanisation, assisted by an aggressive settlement strategy, would favour more employment-intensive and less import-intensive sectors of the economy. It would thus bring relief to constraints on growth such as the balance of payments and excessive capital deepening. While inward industrialisation undoubtedly has a part to play in any growth strategy, its contribution can never be decisive. The construction industry is simply too small to launch the whole economy into a growth phase.

The beneficial demand effects of inward industrialisation are often exaggerated since many of its committed advocates focus exclusively on the first round backward linkages. The second round, input multipliers are spread across the entire economy and tend to dilute the impact effects. Thus, for example, it has been estimated that a tax financed increase in housing expenditure of one per cent of GDP would in the end create only 60 000 additional jobs in South Africa.

Growth with Redistribution

Two recent investigations, undertaken independently by Simkins and van der Berg, reveal that growth is consistent with redistribution. Both studies report that a switch in personal income and per capita income towards blacks occurred during the eighties. It is further argued that these trends are likely to persist in future. In one scenario Van der Berg estimates that an assumed 2,5% growth in GDP will be accompanied by a 3,9% growth in black personal income. The redistributive forces underlying these projections are, firstly, relative increases in black wages, mainly due to improved skills, and secondly, an expansion of job opportunities in the event of steady growth.

The picture becomes bleaker if a slower growth rate is postulated since the burden of inadequate employment growth will fall mainly on blacks who tend to occupy the rear end of the labour queue. Faster growth, of, say, 5% per annum would accelerate the pace of redistribution through the labour market as blacks would be the main beneficiaries of a significant expansion in the demand for labour. The non-black labour force is growing too slowly to satisfy the labour requirements of a booming economy.

Higher growth rates may of course generate offsetting redistributive tendencies since profits and skilled wages will then expand rapidly as well. However, this is unlikely to create major tensions in the society as distributional conflicts become more manageable if everyone's living standards are rising.

Redistribution through the labour market could be augmented by supporting budgetary actions. Van der Berg calculates that an increase in social spending from 11% to 15% of GDP, coupled with a reallocation of social expenditure to equalise per capita spending across the various race groups, would add more than an extra percentage point to the growth rate of black secondary income. Under the 2,5% growth scenario, black secondary income would then increase by 5,3% per annum.

The Old Mutual-Nedcor scenario advocates a 'kick-start' for the economy based on a housing and electrification programme

Urbanisation, assisted by an aggressive settlement strategy, would favour more employment-intensive and less import-intensive sectors of the economy

A sensible government would have to rely on a mix of redistribution through growth and direct redistributive measures to attain its objectives

More recent statements suggest that the ANC is abandoning its devotion to populist macroeconomics

The latter figure is well above the population growth rate, and implies fairly rapid per capita income growth.

This scenario is reassuring since it illustrates that redistribution can and will occur within a growth-oriented environment. Of course, one could conceive of specific interventions to accelerate the pace of redistribution, even though these might retard growth and hence obstruct the redistributive process associated with growth. But the scenario demonstrates that such direct actions cannot be over-used as this would almost certainly delay the attainment of a satisfactory overall racial distribution of income.

A sensible government, even if it has an overriding commitment to redistribution, would have to rely on a mix of growth, and by implication redistribution through growth, and direct redistributive measures, to attain its objectives. It is in this sense that Van der Berg's scenario provides a realistic framework within which to situate negotiations and debate on growth and redistribution.

There are positive indications that the ANC might find such a framework tolerable. While a full-blown growth through redistribution strategy featured prominently in the early policy documents of the organisation, more recent statements suggest that the ANC is abandoning its devotion to populist macroeconomics.

Trade Policy & Growth

One of the most important preconditions for growth relates to trade policy. There is broad consensus in South Africa that import-substitution has been taken to its limits and that primary production can no longer propel the economy. A change of orientation towards exporting manufactured goods has therefore become unavoidable. South Africa's non-gold exports performed well during the eighties, averaging around 10% growth per annum. A sustainable export drive will, however, necessitate a degree of import liberalisation. (Merle Holden has estimated that the present tariff structure raises the average cost of manufactured exports by 34%.)

One should not, however, be too optimistic that a full-scale liberalisation programme will be implemented. The withdrawal of protective barriers precipitates a demanding process of structural adjustment during which major disruptions to existing producers can occur. Complex sequencing problems arise if one wishes to minimise these costs.

But the most intractable obstacle to liberalisation is the absence of a coherent pressure group in favour of such a policy. Existing businesses, for obvious reasons, are at best ambiguous in their support for liberalisation. Trade unions are likely to be even more cautious as they would be particularly concerned about the initial job losses that might result from increased foreign competition. Finally, although the government seems to recognise the need for liberalisation, the recent events around VAT demonstrate that the era of unilateral decision-making is irrevocably over.

Two further impediments to negotiating a satisfactory export policy should be mentioned. Firstly, an emphasis on export promotion closes down various interventionist options, and therefore has the effect of disciplining government. An inappropriate exchange rate policy, for instance, has immediate repercussions on exports. Although these side effects are viewed as a blessing in disguise by agencies such as the World Bank, they may be more unpalatable to certain domestic groupings, and could be a source of some opposition to export-oriented growth policies.

Secondly, one should anticipate dissension over the whole issue of selective industrial policy. The Korean model, in which the state targeted certain industries for special treatment, enjoys considerable appeal, especially in trade union circles. But this approach holds some dangers for South Africa. Korea followed a relatively linear development path which began with labour-intensive exports, and only gradually progressed towards more sophisticated manufacturing. This made it relatively easy to choose the 'winners'.

In South Africa's case the probability of costly mistakes is much higher as it is uncertain where our comparative advantage in the short to medium-term lies. South Africa is certainly too advanced to follow a labour-intensive export route. But it is also not clear whether we should concentrate on capital-intensive projects such as beneficiation, or promote exports based on more intermediate level technologies.

Saving and Investment

The level of gross saving in South Africa held up surprisingly well during the previous decade despite all the shocks encountered by the economy. Although it fell slightly below the long-term trend during the second half of the eighties, it is likely that an economic recovery will be accompanied by a full restoration of the gross savings propensity.

The level of net saving, on the other hand, has virtually collapsed. The difference could of course be due to a rise in provision for depreciation. While this extraordinary trend may be ascribed in part to the real depreciation of the Rand, no satisfactory explanation accounting for the full extent of this change has as yet been proposed. It is also quite possible that it may be due to an accounting or statistical error.

Either way, one can argue that it is the gross savings ratio that really matters. On this account, it is unnecessary to be unduly worried about a shortage of domestic saving. While an inflow of foreign capital will be essential, especially to alleviate constraints on the balance of payments during an upswing, domestic saving ought to be sufficient to finance an annual growth rate of at least 3%.

The key to growth is that South Africa has to attract an adequate quantity and quality of investment. Among the many preconditions for achieving this is an efficient financial sector. The harm done by interest rate repression does not fall on the side of saving, as is often assumed, but on investment, since an artificially low interest rate loses its capacity to screen out investment projects with poor prospects, thus causing a deterioration in the general quality of investment. An attempt to systematically direct credit flows, not to mention bank nationalisation, could cause even more damage to productive investment, and is certainly not a basis for a growth sustaining accord.

An element of intervention in the financial sector is probably unavoidable. For instance, the casino image of the stock exchange is firmly imprinted in the popular consciousness, and naturally gives rise to calls for direct controls. Such forms of intervention will not, however, promote a more equal distribution of income since heavy-handed financial market intervention is not an effective instrument of redistribution.

On the other hand, the proposal to earmark 10% of the assets of retirement funds for housing and development related financing has some merit, and will not necessarily inhibit growth. This, and other ways of extending access to credit might enable the financial sector to respond to its critics in a more redistributive manner.

Labour Markets

Certain forms of intervention in the labour market are relatively uncontroversial. Education and training, for instance, have virtue in that they simultaneously promote growth and redistribution.

The wage level is a more contentious question, especially since it is impossible to determine whether wages in South Africa are excessively high. Nonetheless, some of the myths surrounding the role of trade union activity can be easily dispelled. An investigation by Peter Moll, for instance, found that the wage differential between unionised and non-unionised labour, after correcting for differences in skill and experience, was less than 10%.

The historical development path of the economy may have been a more fundamental determinant of the present wage structure. As the experience of countries suffering from the so-called 'Dutch disease' illustrates, a successful primary export orientation puts an upward bias on the exchange rate, and thus leads to a real wage that is inconsistent with exporting labour-intensive manufactured goods. This tendency has been further augmented in South Africa by our capital-intensive pattern of import-substituting industrialisation. South Africa's future exports would have to adapt to this reality.

The possibility of substantial downward real wage adjustments are remote. A successful export drive, may, however, require a period of wage restraint, at least until productivity growth manifests itself. In this regard, it is worth noting that manufacturing wages in Korea have consistently remained below the average for the economy as a whole. On the other hand, no-one should underestimate the potential for resistance to any form of wage restraint, particularly given the shifting nature of the balance of power in South Africa.

Uncertainty over the most appropriate growth path for the economy, the composition of capital and labour, as well as the corresponding wage trend, will only make it more difficult to negotiate an acceptable wage accord. The adoption of

While an inflow of foreign capital will be essential, domestic saving ought to be sufficient to finance an annual growth rate of at least 3%

Uncertainty over the most appropriate growth path for the economywill make it more difficult to negotiate an acceptable economic accord

ANC economic advisors seem to appreciate that, while fiscal reform offers significant opportunities to improve black welfare, there are severe constraints on increasing expenditure

productivity related bargaining, coupled with investment in training, may be the only constructive way of avoiding a possible stand-off between business and organised labour over wages which would further inhibit growth.

The structure of collective bargaining is relevant in this regard. International research suggests that wage flexibility and industrial strife are influenced by the nature of collective bargaining. Decentralised systems promote competition and a large degree of wage flexibility. Corporatist, or centralised systems of bargaining, encourage the parties to take a broader view, and could thus create a favourable environment for the resolution of conflicting interests.

Intermediate systems, such as ours, where bargaining occurs at the industry level, tend to be more inflexible, and less conducive to compromises over economic strategy. Although a fully fledged corporatist solution seems improbable at present, an historic opportunity to bring about innovative changes to South Africa's bargaining structure might arise in the course of the current transition. Such a fluid situation is not likely to present itself again.

Fiscal Policy

The main priority for budgetary reform over the next few years is to equalise spending across the various racial groups. It is obvious that this cannot be achieved at current white levels since the proportion of resources devoted to government expenditure is already above average for an economy at our stage of development. An excessive increase in expenditure, whether financed through taxation or borrowing, would undoubtedly retard growth since it would heighten the prospect of macroeconomic instability, and induce a loss of confidence.

It is more doubtful whether moderate fiscal growth, culminating in an overall level of expenditure of, say, 35% of GDP, will have harmful effects. Economics provides few guidelines as the results of comparative research on the relationship between growth and the size of government are inconclusive. A compromise rule of thumb might be to confine expenditure increases to years of positive per capita growth, and never to go beyond an increase in expenditure of more than one per cent of GDP.

The revenue side of a budget, despite its predilection for generating political controversy, does not offer much scope for redistributing income. Only the expenditure side can carry the burden of amending the iniquities of the past. This will involve redirecting expenditure between categories, and re-organising spending within each category.

Estimates show that the level of social spending could probably be increased from 11 to 15% of GDP, which would place us among the highest in the developing world. The present performance indicators for social spending are, however, relatively poor. A reallocation of social spending, targeted at human development and the poor, emphasising basic education, health, welfare, and housing, would enable us to correct the situation relatively quickly. For instance, even a moderate redirection of the health budget towards primary care would enable South Africa to provide an adequate primary health system.

Preconditions for Growth

The framework for fiscal reform outlined above would be both redistributive and growth supporting. Numerous international studies confirm that the returns to investments in good quality primary education, health, and urban services are much higher than the returns to investments in secondary and tertiary level services.

The key question, however, is whether such a programme would satisfy black expectations. Only time will tell, although it is obvious that fiscal restraint will saddle the ANC with the unenviable task of legitimating a programme that may fall short of popular demands. Nonetheless, ANC economic advisors seem to appreciate that, while fiscal reform offers significant opportunities to improve black welfare, there are severe constraints on increasing expenditure.

Whites, for their part, will have no choice but to accept the additions to the tax burden implied by a reallocation of spending. It is possible that they may also have to tolerate incremental increases in total expenditure.

In conclusion, it is apparent that the prospects for a growth sustaining accord in South Africa vary from policy to policy. The outlook is more promising with regard to fiscal and financial policy. But there is less cause for optimism when it comes to trade and wage issues. IPSA

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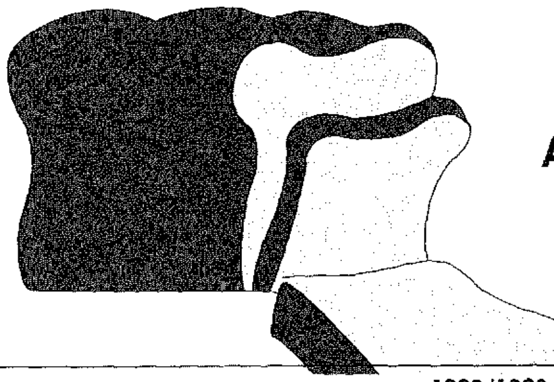
ECONOMIC MONITOR



ALLOCATION OF THE 1992/1993 BUDGET

	1992/1993 (Rm)	1991/1992 (Rm)
Regional and Land Affairs	20 985,2	17 495,5
Finance	17 304,7	14 209,0
Defence	9 704,5	9 187,1
House of Assembly Administration	9 067,5	8 430,9
Foreign Affairs	5 797,2	5 025,7
Police	5 645,1	4 645,9
House of Representative Administration	4 709,6	3 750,8
Education and Training	4 555,9	3 368,2
Trade and Industry	3 059,9	1 914,9
Improvement of conditions of service	2 283,1	3 340,0
Transport	1 998,3	1 496,4
Public Works	1 909,8	1 781,0
House of Delegates Administration	1 635,7	1 378,9
Correctional Services	1 484,0	1 275,8
National Health and Population Development	1 169,9	634,2
Local Government and National Housing	979,6	732,7
Justice	777,9	571,6
Mineral and Energy Affairs	687,2	896,1
State Expenditure	603,8	552,6
Agriculture	452,6	306,4
Water Affairs and Forestry	389,0	376,1
Manpower	294,8	302,1
Home Affairs	288,7	281,4
National Education	283,8	299,7
Environmental Affairs	207,0	168,9
Allocations from ordinary levy to TBVC countries	170,0	140,0
Parliament	86,6	71,2
Commission for Administration	53,5	46,5
SA Communications Service	51,6	41,6
Constitutional Development	41,2	14,9
State President	21,3	16,2
Allocation of fuel levy to Namibia	13,0	10,0
Public Enterprises and Privatisation	7,5	5,8
Central Economic Advisory Service	4,4	4,6
Allocations from ordinary levy to TBVC/BLS countries	3,5	6,0
Audit	2,4	0,5
TOTAL	**96 729,8**	**82 779,2**

THE CASE FOR A LAND TAX

From Entitlement to Restitution

Professor Basil Moore,
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'Of all the processes which have brought about the inequitable distribution of wealth and power that characterises present day South Africa, none has been more decisive and of more immediate importance to most black communities than the dispossession of land. To an agrarian community whose entire economic and social structure is based on the distribution of land, dispossession was an act akin to national destruction.'

State President FW de Klerk, 1991

South Africa is currently in the process of abolishing discriminatory statutes, introducing principles of constitutional rights for all, and moving toward a non-racial democracy, in the first steps along the difficult traverse of dismantling apartheid's unacceptable legacy of racial claims to income, wealth and land.

The principle of equal opportunities immediately raises a derivative concern. No one could deny that immense differentials exist at present in the ability of different groups to contribute and compete effectively in South African markets, the bitter legacy of apartheid's social and economic discrimination and unequal access.

When the ability to contribute has been so differentially constrained by past discrimination, simply assuring 'equal access' in the future for everyone to compete, 'entitlement' (the legal ability to act) will be insufficient in itself to produce a just outcome. More than in most countries, in South Africa justice requires that 'equal opportunity' be supplemented by the right to a more 'equal start'. This obviously cannot be easily or quickly achieved. For labour income it implies massive and long-term education and training expenditures, to enable blacks to acquire marketable skills (human capital) and work experience.

However, for property income the time frame for empowerment could be shorter. With regard to the question of land reform, the scrapping of the 1913 and 1936 Land Acts, plus a plethora of related acts and regulations, has now assured blacks 'entitlement'. Blacks are, or will soon be, freely able under the law to acquire land for agricultural, business, and residential purposes, providing, as for everyone else, that they have the means.

But for blacks the means qualification is in fact disabling. Given the existing distribution of wealth, 'entitlement' alone is insufficient to ensure that blacks have a fair chance of access to land. The present highly skewed distribution of wealth ownership combined with the extremely high level of land prices will be sufficient to inhibit most blacks from obtaining land through cash purchase with their own or borrowed funds for many generations to come.

Empowerment Measures

Skewed distribution of wealth combined with high land prices will inhibit most blacks from obtaining land for many generations to come

For effective land redistribution to occur, access through 'entitlement' must be supplemented by measures aimed at 'empowering' blacks to put these new rights to use. Some form of compensation for the past apartheid legacy, so as to at least reduce the existing extreme degree of racial inequality in land ownership, would appear to be morally compelling. Such a programme of 'empowerment' has been termed Economic Affirmative Action (van Rooyen and van Zyl, 1991).

It has not yet been publicly acknowledged by the South African government that any restitution by the state to blacks is appropriate. One can rationalise the government's position as merely an initial stance in the upcoming bargaining process. Tactically, it may appear prudent not to concede points to one's adversary before the horse-trading has commenced.

On the land issue white farmers, as represented by the Transvaal Agricultural Union, have loudly declared they are dead set against any change in the property patterns in the agricultural sector. But in

For effective land redistribution, legal entitlement must be supplemented by measures aimed at empowering blacks to put these new rights to use

view of the degree of past exploitation of black labour attendant on the Land Acts, and the degree of resentment engendered, on both moral and practical grounds there would appear to be an overwhelming case for some sort of restitution policy to finance an increase in black land ownership.

Many whites would argue that they personally never intended any wrong doings against blacks, but were unknowingly trapped in structures created by the Land Acts and other apartheid measures. Any new form of dispossession would unjustly deprive the present owners of what they have legally bought or inherited, and developed with their own sweat. That may be the case. Nevertheless, it can be argued that these structures have privileged and enriched whites out of all proportion to their merits and contributions.

Consequently, whites ought to be prepared for restitution to settle their alleged unintended debt, but debt nevertheless. The terrible statistic of 87% ('white' land) versus 13% ('black' land) cannot be avoided. The question becomes how best to alter these proportions, so that land ownership ratios at least correspond directly and not inversely to the population proportions.

The land issue may then be broken down:

- First, should restitution be done with or without the owners' consent? If it is accepted that expropriation without compensation is not a conceivable outcome of any negotiated political settlement, the next question then revolves around compensation.
- If whites are to be compensated for giving up their rights in land to blacks, the question then becomes what land, who is to pay, how much, and with what?
- Third, should this be done suddenly, or in stages?
- Fourth, should large-scale farming be maintained, perhaps in the form of cooperative farms, or should the land be parcelled out to small-scale family farmers and smallholders, and if so, what would be the effect on agricultural output and productivity (van Rooyen and van Zyl, 1991)?

If the principle of consent rather than force is accepted by both sides, as would seem to be implied by a mutual commitment to negotiations, the central issue then revolves around compensation; what properties, who is to pay, how much, and with what?

What would seem to be necessary is the development of agreed rules for restitution, including some arbitrary historic cut-off date, say 1948

Rules for Restitution

In all countries, present day property relations are based on ancient acts of conquest or forms of internal appropriation which in contemporary terms would not bear legal scrutiny. No-one in England would seek to set aside present landholding arrangements because they emanated from a system of tenure introduced by force by William the Conqueror. In the United States, the land claims of native Americans are based on treaty rights to specific areas of land, rather than on original possession of the entire continent.

The difference in the case of South Africa is that the land dispossession is much more recent. In many parts of the country blacks continue to occupy and till the soil, and are aware of dispossession not simply on a generalised historic basis, but in relation to specific pieces of land farmed by their ancestors or themselves.

Many of the 'black spots' removals are currently government trust lands, which could simply be returned to the original inhabitants without dispossessing anyone. It has been estimated that 1,3m people were forcibly dispossessed of their rights to land in white farming areas up to 1982 (Marcus, 1989). Most of those dispossessed by Group Areas legislation still cherish the prospects of regaining their ancestral land.

The demands of the dispossessed take different forms in different parts of the country. In and around the homelands in the eastern part of the country, the pressure is for rolling back the years of encroachment by neighbouring white farmers. In the Western Cape and the Natal Midlands, where proletarianisation goes back further and has been more profound, the claims relate to securing dignified conditions of work and pay, rather than to getting direct access to land (Sachs, 1991).

What would seem to be necessary is the development of agreed rules for restitution, including some arbitrary historic cut-off date, say 1948, before which no claims would be considered. A National Land Court would have to be set up, ideally for some pre-specified period, as a tribunal to arbitrate claims. Each claim would have to be considered on its merits.

To give the new property rights legitimacy, two basic principles would have to be followed: the law must be totally deracialised, and the people involved must be actively consulted in an open process

(Sachs, 1991). The goal would not be to redress all past wrongs and inequities, which would be clearly impossible, but only the most recent and egregious dispossessions, where clear and overwhelming evidence can be established. International experience makes clear that land redistribution is a very emotional and messy process, which will keep even a well-functioning legal system busy for a considerable period of time.

Market Compensation

In order to effect major land reform, the issue of compensation must receive precedence. Full market value compensation would be favoured by farmers and other owners of property, who would insist that expropriation without full compensation is 'theft'. Given the rules of the game the only just solution would appear to be for the state to pay the full market value of any assets appropriated for redistribution to blacks.

However, full compensation would present a serious problem to many members of the black community, to whom full compensation to the possessors of their land does not make sense. Equally important, the opportunity costs of a policy of full compensation at present market levels would appear to be prohibitive.

The market value of all white farms in 1989 has been estimated at R70 bn (van der Berg, 1991). To purchase just one-tenth of white farms for land reform at market value would require R7 bn. This amount would be equivalent to building 200 000 new homes, or one-quarter of the present backlog. Alternatively this sum could be used to build about 3 000 primary schools, one-fifth the present number, or 1 500 secondary schools, one-third the present number, or to pay the salaries of an additional 32 000 teachers for ten years, one-fifth the present number (van der Berg, 1991).

Yet even with such a huge outlay, only one-tenth of white farm land could be purchased, assuming unrealistically that land prices remained unchanged. To the extent prices were driven up by the new purchases, as would certainly occur, the physical area of land acquired would be proportionally reduced.

Where is the finance for such land repurchase to come from, particularly when the state has to meet the huge current backlogs in capital infrastructure, education, health care, and other social services? South Africa's tax/GDP ratio of 30% is already very high by the standards of comparable middle income countries classified by the World Bank, and the top 5% of the population already pay more than 70% of the income tax (Loots, 1991).

While it is true that tax rates could be raised further, and new taxes such as capital gains imposed, this would necessarily have adverse effects on supply incentives. Recent tax reforms in all countries have been in the direction of tax reductions, not increases. Moreover, corporate capital is becoming increasingly mobile. This very mobility of capital is the main assurance to the economic elite that their incomes will not simply be expropriated by ruthlessly progressive tax rates in any new dispensation.

The main reason why South Africa's net savings and investment ratios have fallen so sharply in the past decade is that due to financial sanctions, corporate profits have had to be used to repay foreign debt and to purchase previously existing assets from foreigners, rather than invested in productive net new capital formation. The use of additional scarce current savings to purchase existing assets from locals would simply exacerbate this process.

Land Tax Subsidy

Somehow, another option must be found. If there is in principle a commitment both to redistribution and to full compensation to property owners for all land purchased, and if the costs of full compensation at current market prices are prohibitive, some means must be found to reduce land prices if significant redistribution is to occur. The obvious solution would be to impose a tax on land values, the proceeds to be earmarked to subsidise private land acquisition by blacks. The Land Bank would be the natural intermediary both to channel these funds to potential buyers, and to provide mortgage financing against the lands acquired.

Land values represent the discounted present value of the expected future net income stream from the land. As a result the effects of land taxation can be viewed as theoretically analogous to a market-induced partial nationalisation of land, but like all taxes and unlike nationalisation, without requiring any compensation to the existing owners.

The only just solution would appear to be for the state to pay the full market value of any assets appropriated for redistribution to blacks

As the costs of full compensation are prohibitive, the obvious solution to reduce land prices would be to impose a tax on land values

Unlike other economic goods, land values and land rents can be taxed to any extent without endangering the supply

Such a tax would rapidly be capitalised in a reduction of land prices. If the real return on land were 10%, a 5% tax on land values would serve to reduce land values by one-third, while a 10% tax would reduce land values by 50%. (The formula is P=R/(r-g+t) where P=Price, R=Rent, r=nominal interest rate, g=nominal growth rate of the rental stream, and t=tax rate.)

While most taxes give the wrong supply incentives, as is well-known, land is unique in being the sole factor of production whose supply is virtually perfectly inelastic. Increases in land values do not result in any additional land supply. South Africans, we are told, save too little. Savings are needed for the investment that underlies an increase in the economy's productive capacity. But saving does not influence the amount of land in existence. The choices involving land concern not how much there should be, but how the stock nature provided should best be used.

The basic case for land taxation has of course long been recognised. As people congregate in urban areas, they use space in what is a limited land area, so that land becomes scarcer relative to population. Some mechanism must be used to allocate the limited resource efficiently. Under capitalism price is that mechanism. Due to increased demand land in areas of higher population density commands higher prices, either as rent or at purchase as capital value.

Once a more equitable land distribution is reached, the government could lower or even abolish the land tax rate and so again raise land values

Land is the one resource whose supply does not depend on price. Higher taxes will in general reduce the supply of all economic goods, except land. Land as space on the earth's surface will not disappear if the owner expects to get nothing, as is the case with other goods. Land will not take a vacation, nor move out of the tax jurisdiction. Paying more or less for land will not add to or reduce the space existing. Land values and land rents can be taxed to any extent without endangering the supply.

By reducing land values, such a tax would be painful. To the extent it fell predominately on landowners and not on wealth owners generally, it would also violate the basic consideration of horizontal equity. Care would have to be taken not to push land prices down so far as to cause mass bankruptcy of landowners. Moreover, some concession or compensation would have to be granted banks and other creditors who had lent against previous land values, so as not to provoke general financial instability.

The case is thus not that a land tax is a perfect solution. Like any tax, it has dead-weight costs. The case is rather that these costs are lower for a tax on land than on any other good, and that the social and political benefits of such a land redistribution policy appear to vastly outweigh the economic costs. Moreover, if desired the process could be reversible. Once a more equitable land distribution was reached, the government could hold out the option of future land denationalisation, by lowering or even abolishing the tax rate and so again raising land values.

A Policy Package

To effect a major land redistribution, the imposition of a land tax should be accompanied by a combination of other measures which, though not especially potent when applied individually, would constitute a powerful policy package when used complimentarily to supplement one another.

- *Stock taking of all land and property owned by the state and its agencies should be immediately undertaken.*

This could be followed directly by the allocation of state-owned land and property to blacks through the Land Bank at subsidised rates. South Africa has a total land area of approximately 122m ha. About 85m ha (70%) are under the control of white farmers, so that with 50 000 farmers, average farm size is 1 700 ha. South African Development Trust land is about 16m ha (13%), so that huge tracts of land are potentially available for development without any dispossession (Auerbach, 1990).

Black farmland is about 26m ha, so that with approximately 1,2m black farmers average farm size is 22 ha. Since it is estimated that 90 to 95% of people in agricultural areas do not wish to farm, there is no point in trying to force them into agriculture. Rather blacks should be assisted to acquire suitable peri-urban land and properties (Ibid).

- *State subsidies for agriculture should be eliminated, and the present marketing boards scrapped.*

State subsidies for agriculture get rapidly capitalised in land values. It has been estimated that the single channel fixed price marketing schemes operated by the Maize and Wheat Boards have caused land prices to rise by more than 40% (Howcroft, 1990). Commodity prices have been fixed largely on a cost-plus basis by all the marketing boards. In consequence for the last ten years sugar and maize have been exported at prices well below the domestic price. At current prices fruit, wine and wool are the only major commodities that can be exported at a profit without subsidisation (de Klerk, 1991).

- *The state should stop further assistance to service farmers' non-performing loans.*

Over-mechanisation and excessive borrowing has been encouraged by heavily subsidised negative real borrowing rates to farmers, plus the ability to write off the full cost of machinery and equipment in the year of purchase. The banks must accept some of the bad debt losses, since they have granted farmers credit with solvency as the main criterion, against the security of a farmer's net assets, primarily the value of the land, rather than the ability of the farmer to fund interest and capital repayments out of current income (de Klerk, 1991). It has been estimated that more than one-third of total loans to farmers are currently non-performing and could be called (de Klerk, 1991).

The Land Bank could again supervise such rationalisation and arrange for the transfer of ownership to black farmers at subsidised rates.

- *Depending on the land tax rate chosen and the tax proceeds, over some target period the state could provide in its annual budget for the purchase of land by blacks at subsidised prices.*

Private land acquisition by blacks must become a long-term programme until black land ownership goals are achieved. In view of the desirability of quick realisation of such a potentially divisive programme, this suggests that the tax rate chosen should be substantial. If the goal were to effect a transfer of e.g. 50% of all land to blacks, assuming no leakages, a 5% tax would take ten years to reach this target, while with a 10% tax five years would suffice.

- *Since the proceeds from such land sales would be primarily directed by former landholders to financial and tangible asset accumulation, the economy would benefit from a huge infusion of funds to finance net new productive capital formation.*

In addition to the extent black incomes increased as a result of their new asset acquisition, an increase in aggregate demand for private sector output would be generated.

If the goal were to effect a transfer of 50% of all land to blacks, assuming no leakages, a 5% tax would take ten years to reach this target

The Advantages

The advantage of such a proposed policy package is that it would enable several issues to be addressed simultaneously. A more equitable racial distribution of land ownership would be achieved, black sense of grievances and black land hunger assuaged, and the foundations for a truly democratic, politically stable and productive South Africa more deeply planted.

Agriculture would be rationalised, so that land could become more efficiently as well as more equitably used. Land prices would fall rather than escalate when the programme of private black land acquisition was initiated. As a result, it would be possible to achieve a significant political impact immediately, by releasing up to 20 to 30m ha to blacks right at the beginning.

Finally, by focusing on those agricultural exports where South Africa has a true comparative advantage, primary export revenues would rise, and the process of export-led growth would be given an encouraging push. IPSA

A more equitable racial distribution of land would lay the foundations for a truly democratic, politically stable and productive South Africa

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Economic Outlook

THE 1992-1993 BUDGET

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RETROSPECT

The South African economy entered its fourth year of economic downswing, shown in Table 1, with real gross domestic product per head having fallen from R3 683 per annum in 1988 to R3 487 in 1991. The negative real growth of GDP recorded in 1990 and 1991 lowered the annual growth rate of real GDP for the decade 1981-1991 to 0,9%, and real incomes per head fell by 14% over the same period.

Table 1: Real Growth of GDP 1981 - 1991

Year	Annual Growth Rate in Real GDP (%)	Real GDP Per Capita (Constant 1985 prices) (Rand)
1981		4 055
1986	1,5	3 617
1987	2,1	3 613
1988	4,2	3 683
1989	2,3	3 685
1990	-0,5	3 585
1991	-0,6	3 487

Source: *Budget Review 1992*, Department of Finance.

In the first nine quarters of the recession up to June 1991 formal sector employment had fallen by 2,9%. However, real wages continued to increase, driven by rising remuneration levels in the public sector and by trade union activism. In the first half of 1991 real wages per worker rose by 1,1%.

Falling domestic demand, poor agriculture conditions and poor economic growth in the major industrial economies caused the recessionary conditions in South Africa to become widespread. In 1991 the real value added in agriculture and mining both declined by 1,5%, while real value added in manufacturing industry declined by 2,5%. The decline in manufacturing production occurred as a result of falling levels of domestic demand and on the account effect of strikes in certain sectors, notwithstanding an upsurge of exports of manufactures. Between 1989 and 1991 the utilisation rate of manufacturing production capacity fell from 85 to 81%.

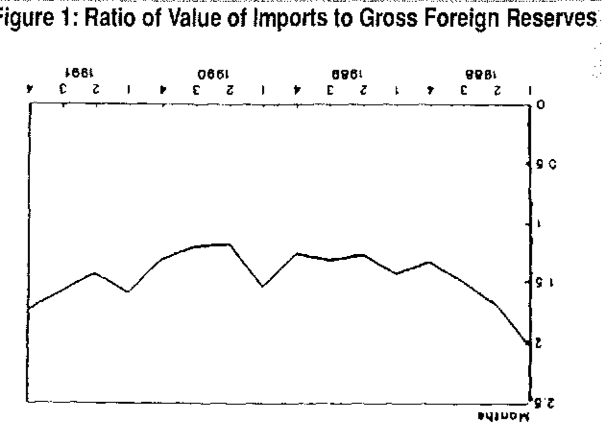
The level of gross domestic expenditure also fell during 1991 for the third successive year. Falling real disposable household incomes during 1991 prevented real private consumption expenditure from rising above its 1990 level, while government real consumption expenditure increased sharply by 5,5%. Most disturbingly, the fall in levels of domestic economic activity, slowing growth in the economies of the major trading partners, growing levels of excess production capacity and increased political uncertainty caused the level of real investment to continue its downward trend in 1991. Inventory investment also declined after the second half of 1989.

Inflationary pressures and the politically induced need for a surplus on the current account of the balance of payments have resulted in the successful imposition of restrictive monetary policies, and attempts to maintain fiscal discipline. The guidelines for the growth rate of the money supply (M3) of 11 to 15% for 1990 were lowered to 8 to 12% for 1991, reflecting the successful reduction in the growth of the money supply.

The restrictive policy measures since 1988, falling domestic demand, and a more stable exchange rate of the Rand had contained the inflation rate in 1989 and 1990 to just below 15% per annum. In 1991 the inflation rate accelerated to over 15%, however, caused by the effects of the Gulf War on the price of oil and the imposition of VAT.

Restrictive macroeconomic policies and growth in exports prices and volumes in 1991 resulted in the annual current account surplus on the balance of payments rising to R7,4bn in 1991. Unfortunately, conditions on the capital account of the balance of payments deteriorated as there was a switch to domestic sources of financing of foreign trade after the abolition of preferential exchange rates on forward cover, and in total there was a net outflow of R6,1bn. The gold and foreign exchange reserves nevertheless continued to strengthen, and had risen to R9,8bn at the end of 1991 - approximately equal to two months imports of goods and services, as shown in Figure 1.

Figure 1: Ratio of Value of Imports to Gross Foreign Reserves



Source: *Budget Review 1992*, Department of Finance.

PROSPECT

A positive growth of between 1 and 1,5% is expected for real GDP in the year ahead. The prospects for rapid growth in the volume of exports in 1992 are not good given the decline in international economic growth, with the Japanese economy recently joining the world recession, and world commodity prices remaining weak. However, the Referendum outcome should accelerate the removal of trade and financial sanctions, while sales of strategic oil supplies (now less necessary) will also reduce the demand for imports in the short run. Thus at a growth rate of 1% in GDP a balance of payments current account surplus of R4bn to R5bn is expected for 1992.

In terms of the interim debt agreement less than R3bn is left to be repaid at the end of 1992. South Africa has also again ensured limited access to foreign borrowing. It would therefore appear that some additional scope exists for stimulating the economy in 1992 without the balance of payments becoming a serious constraint nor undue pressure being placed on the exchange rate.

The level of domestic investment may also be assisted by the Referendum results which will have removed some of the political uncertainty, and may spur some new investment especially in some export orientated industries which have been encouraged by the GEIS. In addition, certain multinationals are considering a return to South Africa. The increase expected in investment from the abolition of VAT on capital equipment may also occur this year. There are thus some prospects for an improvement in private investment. This will be encouraged by the large-scale capital projects being undertaken by the South African Development Trust and the South African Housing Trust. Furthermore, the Regional Development Programme should begin to show results in 1992. Inventory investment, needed for restocking will also support a revival of fixed investment.

To the extent that growth is stimulated by exports and investment so will the expectations for consumption increases be better. Otherwise, the prospects for a recovery of private consumption expenditure are unfavourable, given the poor agricultural prospects and the expected lower levels of company profits and real salaries and wages.

The prospects for a decline in the inflation rate have improved with the lower increases in the money supply, a relatively stable exchange rate, comparatively stable oil prices, falling inflation rates in our trading partners and expected falling levels of real wages. The severe drought will however place upward pressure on prices. On balance a moderate decline is expected in the inflation rate in 1992.

It is interesting that expectations as to the future gold price are not given much coverage nowadays. This is probably a reflection of either the decreasing role which gold plays in the economy or an inability to foresee where the price is heading. Although gold is less important as part of the tax base it is still a major earner of foreign exchange for the economy and changes in its price have formidable effects on the terms of trade and hence economic welfare. More optimistic forecasts place the price gold rising to US $380 an ounce by the end of 1992.

THE 1992-1993 BUDGET

The budget has been typified as a non-event by some commentators largely as a result of the essentially conservative approach which was adopted by the Minister of Finance. The budget has also been criticised as failing to attend to the long-term structural problems inherent in the economy. An examination of the highlights and main features of the budget will cast some light on the validity of these assertions and a comparison will be drawn with the budget outlined by the ANC.

Table 2 shows that the Minister is budgeting for a 15,7% increase in revenue with a giant increase of 22,5% in personal income tax. Despite some income bands being made fewer and wider, fiscal drag continues as a means of raising revenue. Although the scale for married women with incomes up to R40 000 was brought into line with that of unmarried persons the top marginal rate for married women was increased from 38 to 40%. The re-adjustment in the formula for gold mining makes a minor difference to those mines already suffering from the sustained decline in the price of gold.

In his attempts to raise revenue without increasing income taxes, greater excise duties on alcohol,

Table 2: Revenue, Expenditure and Deficit 1992/93

	Rm	% Change on 1991/92
Inland Revenue:		
Income tax		
Individuals	35 511	22,5
Non-Mining	13 656	9,0
Gold Mines	472	-15,7
Diamonds & Other	855	-7,0
VAT/Sales tax	21 020	12,0
Gold Mine Leases	145	-6,5
Stamp Duties	830	13,0
Transfer Duties	810	-4,0
Other	1 327	-27,0
	74 626	**14,3**
Customs & Excise:		
Customs Duty	3 124	13,6
Import Surcharge	1 670	13,6
Excise Duty	4 519	22,4
Fuel Levy	6 634	27,6
Ordinary Levy	64	6,7
Miscellaneous	252	12,0
	16 263	**21,4**
Less:Customs Union Payments	5 040	8,3
Total Revenue	**85 849**	**16,0**
Total Expenditure	**100 676**	**16,5**
Budget Deficit (adjusted)	**15 927**	**21,0**

tobacco and cigarettes will increase the take by 22,4%, while an increase in the levy on fuel is expected to raise close on R1bn.

On the expenditure side of the budget it is estimated that expenditure should rise by 16,5%. This compares favourably with the previous five years where expenditure increased at an average annual rate of 16,5% though at a rate higher than the rate of inflation of approximately 15% per annum.

Particular expenditures (see *Economic Monitor* cover: 23) which bear mentioning are the 24% increase on education and the 22% increase in health. R2,2bn has been set aside for housing with a further R1,1bn to be spent by the development agencies. Nevertheless, even at a time of recession, civil servants are to receive R2,3bn in pay increases and R2bn has been transferred into the civil servant pension fund. Meanwhile, private sector employees have been retrenched and there is the sort of justifiable bitterness which has seen headlines referring to the 'uncivil' servants.

R1,7bn has been allocated to social assistance programmes, part of which includes the narrowing of racial pensions to where Whites will now receive R345 per month, Asians and Coloureds R318 and Blacks R293 per month.

The deficit before borrowing is estimated at R15,9bn, an increase of 21% on 1991-1992. Furthermore, the deficit has risen from 4,3% of GDP to 4,5%. R1,6bn is to be financed by the sale of strategic supplies, domestic bonds and a minimal R500m from foreign sources.

Policy Debates

Prior to the release of the budget on 18 March, ANC economists revealed their own budget. Neither a significant increase in the overall tax rate nor an increase in the corporate tax rate was called for as there appeared to be a recognition that South Africans were already heavily taxed. However, they do propose cutting public servant nominal salaries, halving the defence budget, restructuring business tax incentives and introducing a capital gains tax which is expected to net R500m.

The ANC proposes to restructure education expenditures by increasing expenditure on primary education from 47 to 60% of the allocation in combination with decreases in secondary education's share from 33 to 30% and the tertiary education share from 20 to 10%.

Food aid schemes, drought relief, equalisation of pensions, zero rating of basic foodstuffs, public works programmes and significant increases in housing are proposed as part of the social programmes for their budget.

It is interesting that in many repects the two budgets bear much similarity in terms of their priorities. However, the major points of difference lie in the treatment of civil servants, capital gains tax, the structure of education expenditures, equalisation of pensions and zero rating of basic foodstuffs.

Given the need to attract a return flow of internationa capital, and to qualify for loans from the IMF, the deficit of 4,5% of GDP seems high, and without further increases in tax leaves no scope for additional expenditure. Thus, the equalisation of pensions plus the zero-rating of foodstuffs could only have been achieved if civil servant salaries had been maintained at their current level. Both alternatives have political implications. For example, we are of the view that th present Minister of Finance will be subjected to immense pressure to reinstate the VAT zero-rating on basic foodstuffs.

Capital gains taxation is unlikely to generate substantial increases in revenue without incurring distortions in the pattern of investment and large collection and evasion costs. The best generator of tax revenue is a healthy growing economy.

In view of the desirability of achieving such an economy the increase in the fuel levy to close to R1bn must be viewed with certain alarm. As the demand for fuel is relatively unresponsive to changes in its price and as any increase in its price is felt throughout the economy at different levels of the production chain, the apparently inflationary effect through an increase in prices paradoxically will also be deflationary. The oil consuming economies of the world will attest to the deflationary effects of the increase in the price of oil during the seventies. Although the fuel levy increase will fund certain social programmes, it will be difficult to outweigh th escalating effects of the increase in fuel prices throughout the economy.

The decrease in the bank rate and the relaxation of hire purchase regulations following on the budget represents a slight easing of monetary policy in the presence of a budget which has been described as mildly stimulatory. The demand for consumer durables should be stimulated by these measures and fixed and inventory investment will also benefit. Given the relatively high inflation rate, it is difficult for monetary and fiscal authorities to have proposed a more expansionary policy. In the light of the findings of the 1991 census of a 19% rate of unemployment the decision to continue the fight against inflation must have been a difficult one.

The experience of other semi-industrialised economies has shown that a crucial ingredient of economic growth is the sustainability of economic policy. The package proposed in the budget and the accompanying monetary policy would appear to be moderately expansionary yet sustainable in line with the priorities of the present government. IPA

EXPORTS AND EXCHANGE RATES

Some Policy Failures, 1970-1990

Charles Harvey, Institute of Development Studies, Sussex, and Carolyn Jenkins, Department of Economics, University of Natal

In the mid-1970s the South African economy shifted from fast to slow growth, despite a massive increase in the price of gold. In due course, in the early 1980s, the government allowed the nominal exchange rate to fall, and tried to raise real interest rates. This should have encouraged both exports and employment to grow faster. The economy's response was partial. Some exports responded, but not labour-intensive exports as might have been predicted; and formal sector employment in the private sector failed completely to respond.

Many of the factors which contributed to slower growth of the South African economy were common to all developing countries. However, as shown in Table 1, the economy grew more slowly in the 1980s than the average for other middle income economies, or even than other economies in Sub-Saharan Africa (SSA).

Table 1

GDP growth: South Africa compared with other middle income countries and with Sub-Saharan Africa (average annual rates of growth)

	1965-80	1980-89
South Africa	4,1%	1,5%
Middle income economies	6,2%	2,9%
Sub-Saharan Africa	4,2%	2,1%

Source: World Bank *World Development Report* 1991

It was not until the 1980s that the South African government changed its exchange rate and interest rate policies. An overvalued exchange rate and negative real interest rates had contributed to the distortion of the economy, by encouraging the use of (mainly imported) capital rather than labour.

The response of the economy to these policy changes should, *prima facie*, have been:

- more rapid growth of exports, especially of those using labour-intensive production methods; and,
- a shift to more labour-intensive production throughout the economy, and therefore faster growth of formal sector employment.

Exports did grow fast after the change in exchange rate policy in 1983, but they were already growing fast *before* this change. Moreover, export growth after the policy change was mainly in capital-intensive products; and the economy did not shift to using more labour.

On the one hand, this was because attempts to reduce the real exchange rate and increase real interest rates were only partially successful. On the other hand, the South African economy proved less responsive than might have been expected, because, among other factors

- sanctions were more severe in the second half of the 1980s;
- sanctions were imposed most effectively in South Africa's biggest export markets, against which the real devaluation was largest;
- fiscal and other incentives continued to favour the use of capital over labour;
- the pattern of protection built up over a long period prevented labour-intensive exports from responding; and, probably,
- employers were faced with increasingly militant labour unions, which from 1980 were the main legal outlet for black political activity.

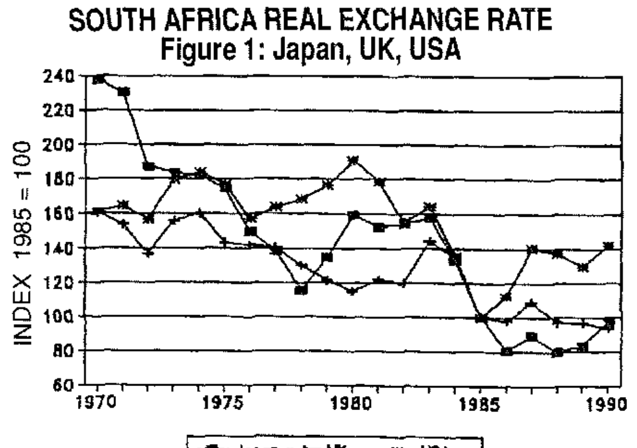
Growth of formal sector employment almost ceased. From 1983, when the Rand first began to fall against major non-regional currencies, to June 1991, formal sector employment rose by only 0,2% a year. What is worse, private sector employment actually fell, being offset by a rise of 19% in government employment. As a result, the proportion of new entrants to the labour market finding formal sector employment fell to below 10% by 1990 (it had been over 90% in the 1960s), so the vast majority of those entering the labour force had to find a source of income in the informal sector.

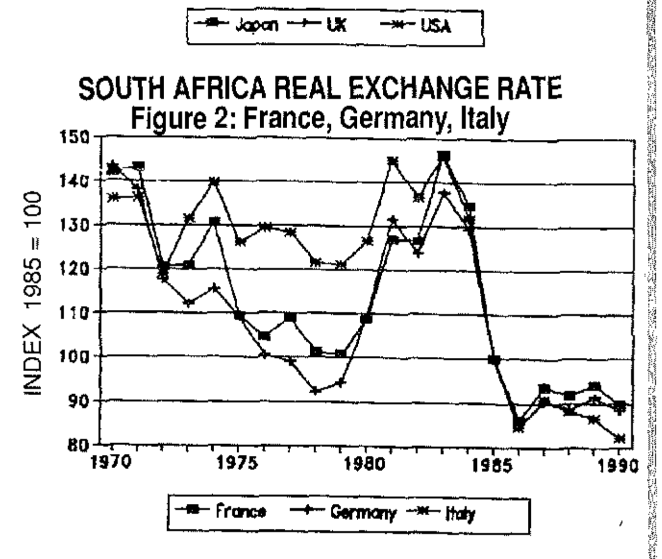
It is crucially important to enquire, therefore, what prevented employment from responding to the large fall in the external value of the Rand, and to the rise in nominal interest rates?

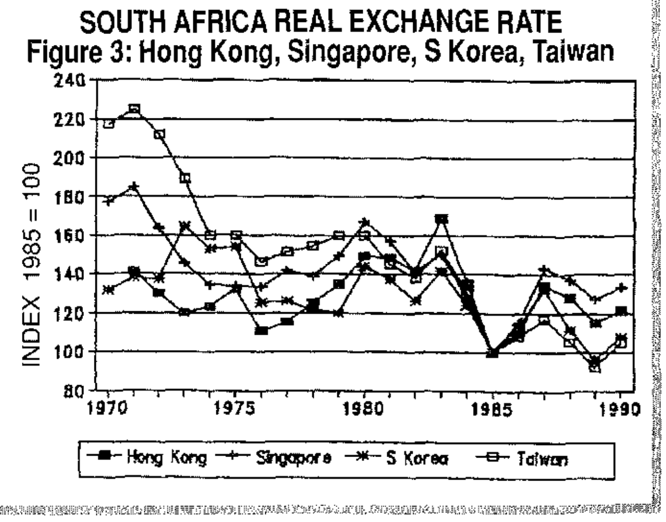
Bilateral Exchange Rates

The nominal devaluation of the Rand had quite different effects in different export markets. It is usual to calculate a weighted index for the real exchange rate. This should show whether, for example, South African inflation has offset the benefits to exporters of a fall in the nominal exchange rate, having also allowed for inflation in the country's trading partners.

However, since the early 1970s, exchange rates have been extremely unstable, even among the major currencies. As with any average, a trade-weighted, real exchange rate index is only useful if the







components of the average move in roughly similar directions and by comparable amounts. If this is not so, then the average conceals more than it reveals. For South Africa, in the period from 1970 to 1990, *bilateral* real exchange rates against different trading partners and groups of trading partners varied in sharply differing ways, so that any average is more misleading than helpful.

As a broad generalisation, there was a substantial real depreciation of the Rand during the 1980s against most of the major industrial countries; the Rand also depreciated in real terms, but by rather less, against some of the country's newer trading partners in East Asia. On the other hand, the currency hardly depreciated at all, or even appreciated a little in real terms, against most of South Africa's immediate neighbours, and also gained little or nothing against a small sample of high inflation countries (Argentina, Brazil and Israel). Even these generalisations conceal significant differences in the exchange-rate movements of individual currencies, as well as large short-term fluctuations.

Figures 1 and 2 show that there was a large real devaluation against a sample of the major industrialised countries from 1983 to 1985, and that this was sustained in most cases from 1985 to 1990, with some fluctuations. Changes in bilateral exchange rates against most smaller European trading partners are similar, because their exchange rates and rates of inflation tend to move closely with those of their larger neighbours.

The US Dollar was a partial exception. The Rand's biggest real devaluation by 1985 (of 40%) was against the US Dollar, but this was offset to some extent by the end of the 1980s. Nevertheless, in the late 1980s the Rand was still showing a (fairly stable) real depreciation against the Dollar compared with 1981-83, albeit smaller than for the other major currencies.

South Africa has been increasing its trade with countries in East Asia. Real exchange rates with the fastest growing of these economies are shown in Figure 3. There was also a real devaluation after 1983 against these currencies, but it was on average less than that achieved against South Africa's industrialised trading partners, and some of the advantage was lost in the late 1980s.

South Africa increased its exports (from a low base) to a number of Latin American countries in the 1980s, and to other middle income countries, especially Israel. Many of these economies had very high and variable rates of inflation in the 1980s, including the three shown in Figure 4. Because the real exchange rates used in this exercise are based on annual averages for both nominal exchange rates and rates of inflation, it would not be surprising if this method was too approximate to give meaningful results for high inflation countries. However, the real exchange-rate indices shown in Figure 4 vary rather less than might have been expected, mostly within a range of 80 to 140 (1985 = 100).

The broad trend, for what it is worth in these cases, appears to be that there was some depreciation in South Africa's real bilateral exchange rates in the first half of the 1980s, with little change thereafter (Argentina in 1989 and 1990 excepted), but only to the same level as in the mid-1970s. South Africa gained little if any competitive advantage, therefore, from changes in the nominal exchange rate in these particular export markets.

In sharp contrast to the real devaluations achieved against the industrialised countries and the Asian 'tigers', Figures 5 and 6 show that the Rand has been relatively stable in real terms against South Africa's main local trading partners in the 1980s. Zaire was a minor exception, as was Zambia for two years when the Zambian government introduced, and then abandoned, a foreign exchange auction (1985-87).

The South African economy is very large in relation to its Southern African neighbours, so that it is unlikely that South Africa can achieve a competitive advantage in the region, other than very temporarily, through nominal devaluation. The currencies of the smaller neighbouring economies have tended to follow the fluctuations of the Rand.

On the other hand, it is possible that the neighbours can achieve a competitive advantage through devaluation without retaliation from South Africa. In Botswana, for example, maintaining a stable real exchange rate against the rand has been a matter of deliberate government policy. Botswana has used exchange-rate policy to reduce inflation, with some success. However, Botswana has also devalued on a number of occasions in order to prevent a worsening of its competitive position, despite having large budget and balance-of-payments surpluses at the time.

Response of Exports

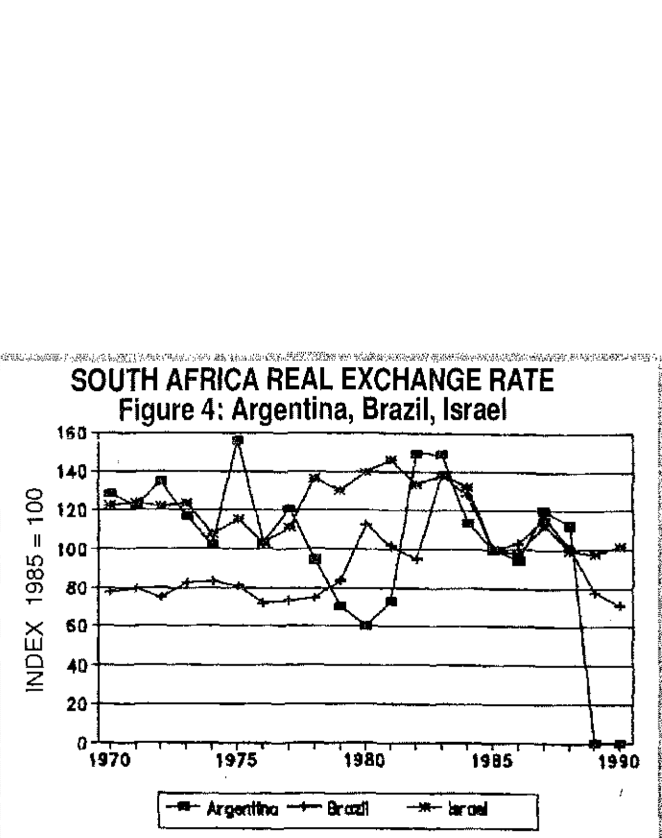
Remarkably high growth in non-gold exports occurred in the period after 1983 (see Figure 7 overleaf, which excludes gold exports). Export volumes grew faster than both GDP and world trade in most years from 1984-90. As a proportion of GDP, non-gold exports had declined from 17,3% in 1980 to 11,9% in 1983, but recovered to 18,1% in 1990.

However, Figure 7 shows that South African non-gold exports had also grown rapidly between 1974 and 1979 (again faster than world trade). Over the four-year period, 1980-83, this export expansion ceased. The unprecedentedly high gold price in 1980-81 caused a sharp escalation in the value of the domestic currency against some trading partners (Figures 1 to 6), while a strong upswing in the domestic business cycle reduced the incentive to export.

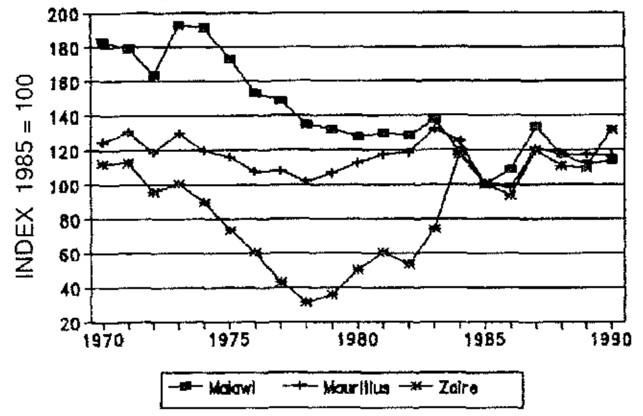
Simultaneously, world trade declined in both volume and unit value terms. The situation was exacerbated by the revival of protectionism in developed countries in the late 1970s; reduced demand on the part of many developing countries facing foreign debt problems; and deteriorating terms of trade for primary commodities.

The volume of non-gold merchandise exports grew vigorously again after 1983, by an average of 7,7% annually between 1983 and 1990. They responded to strong economic recovery on both sides of the Pacific and to the partial real depreciations of the Rand

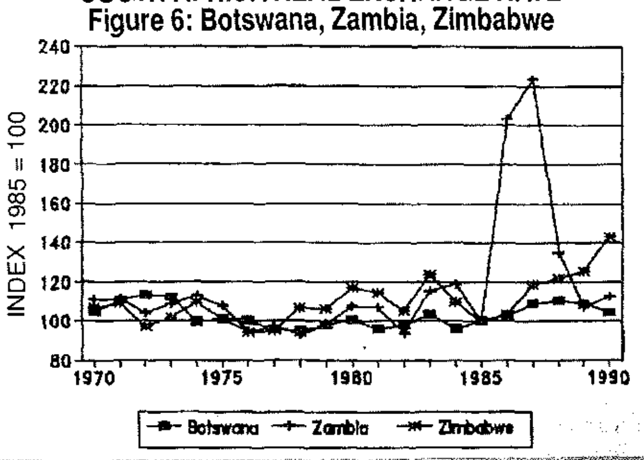
SOUTH AFRICA REAL EXCHANGE RATE
Figure 4: Argentina, Brazil, Israel



SOUTH AFRICA REAL EXCHANGE RATE
Figure 5: Malawi, Mauritius, Zaire



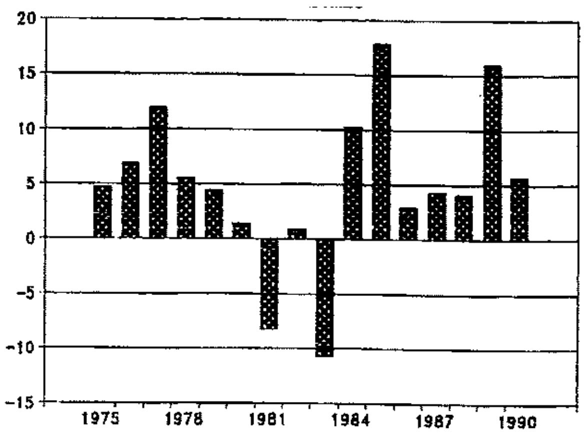
SOUTH AFRICA REAL EXCHANGE RATE
Figure 6: Botswana, Zambia, Zimbabwe



described above. The high growth slowed in the years 1986-88, reflecting lower levels of world demand for mining and agricultural exports, and the immediate effects of economic sanctions.

The effect of sanctions on aggregate non-gold exports seems, however, to have been temporary. Some decline in the growth of exports (which nonetheless remained positive) from 1986 to 1988 after the imposition of more comprehensive sanctions was not surprising. It takes time for exporters to adjust to external shocks, either by finding new export markets or by devising ways in which to evade the

FIGURE 7:
GROWTH IN EXPORT VOLUMES 1974 - 90 (%)



restrictions, especially if there is uncertainty as to whether to expect a relaxation or intensification of the measures imposed.

Recovery (in aggregate) was remarkable. In 1989 the volume of non-gold exports grew by almost 16%, and even in 1990 export performance was better than might have been anticipated. Growth in volume was 5,7%, despite a slowing in world economic growth from 3,0 to 2,5%. Most South African exporters maintained their market share, and some, like coal exporters, even increased it, despite sanctions.

New Trade Winds

Aggregate flows mask significant changes in the direction of trade during the 1980s. Although by far the largest share of South Africa's trade still occurs with the Western industrialised countries, notably Germany, the UK, the USA, Japan, Italy and France, the share of Pacific Rim countries is increasing. The share of Southern African states fell during the 1980s, but was still 21% of total exports in 1989 (Table 2).

Real depreciations of the Rand in the order of 30 to 40% against the currencies of the Western industrialised countries between 1983 and 1986, sustained in most cases to 1990, would lead one to anticipate increasing volumes of exports to these countries, historically South Africa's most important trading partners.

Growth in sales slowed, however, in 1986-88, in part because of stringent sanctions measures in the mid-1980s, especially by the European Community in 1985/87 and the US in 1986. It should be noted that reductions of imports from South Africa were less in some cases than reported below because trade was routed via other countries despite US efforts to prevent this:

- In 1987, exports to the USA fell by 40% with exports of some goods specifically banned under the Comprehensive Anti-Apartheid Act falling to zero.
- In 1986, British trade with South Africa fell by 15%, although it recovered partially in the following year.
- In 1987 exports to Germany dropped by 20% due primarily to a decline in German purchases of gold and Krugerrands, the latter falling by almost 90% as a result of the European Community (EC) ban. Coal exports to Germany fell by 53%.
- In 1986, as relations with France deteriorated, exports to that country fell by 40%.

High growth in the Pacific countries made it possible to switch from export markets in countries applying sanctions. Real devaluation over the 1980s against the currencies of Taiwan, South Korea, Hong Kong and Singapore, together with the lowering of prices on certain commodities like coal to below the world price in order to attract orders, enabled trade to flourish. This occurred despite varying degrees of official hostility to trade with South Africa.

Taiwan, for example, was a major target for trade expansion; it received a large trade mission from South Africa in 1986, and by 1988 was the country's sixth most important trading partner. Hong Kong is now tenth in importance. The extent of South Korea's trade with South Africa is uncertain, because the country does not report its South African trade to the IMF, but it should be listed amongst the top fifteen countries, according to UN sources. Singapore ranks twenty-second as an ultimate purchaser and supplier, although its actual trade volumes would place it far higher, because it has played an important role in re-routing trade between South Africa and East Asia. (Spain and Turkey have played a similar role in rerouting exports, coal in particular, to EC countries since sanctions were imposed).

Responding both to an export drive by South African producers and to some real depreciation against the Rand from 1983, new markets were also exploited in South America, with sales to Brazil, Argentina and Chile doubling between 1983 and 1987. Brazil also now ranks amongst South Africa's fifteen most important trading partners.

Exports to the rest of Africa are more important than appear from official data. IMF direction of trade statistics show Africa as taking only 4,4 per cent of South Africa's exports in 1985, the last year for which South Africa provided data. This percentage derives from exports of the Southern African Customs Union (SACU) as a whole. The proportion is much higher if South Africa's exports to members of SACU are taken into account, in which case exports to Africa were 13% of South Africa's total exports in 1989, 21% of non-gold exports, and one-third of manufactured exports (see Table 2). Table 2 also shows that South Africa was the dominant supplier to several of its neighbours, although its dominance was decreasing in some cases.

In addition, an unknown amount of trade was not reported in the 1980s because many African countries did not want to be seen to be trading with South Africa. (The IMF publishes data reported by trading partners but this conceals transit trade undertaken because of sanctions, and other distortions.) This was presumably included in the 45% of South African exports not allocated to trading partners in the 1985 direction of trade tables (17% of imports were similarly unallocated).

Table 2
South African trade with selected neighbouring countries (US$ millions, excluding gold)

	South African exports		South Africa's market share (%)	
	1984	1989	1984	1989
Botswana	552	1 021	78%	80%
Lesotho (a)	474	556	95%	95%
Malawi	109	152	40%	30%
Namibia	685	671	90%	75%
Swaziland (a)	315	431	90%	74%
Zambia (b)	129	175	21%	20%
Zimbabwe (b)	184	62	19%	6%
SA non-gold exports	8 878	14 937		
Share of neighbours	28%	21%		

Notes: (a) Trade with South Africa estimated from share in 1985
(b) Trade with South Africa estimated from share in 1988

Sources: IMF 1986, 1990; Swaziland *Annual Statistical Bulletin*; Lesotho *Statistical Yearbook*; Botswana *Statistical Bulletin*; EIU *Country Report: Namibia, Botswana, Lesotho, Swaziland* 1990.

Composition of Trade

The most important development in the composition of trade during the 1980s was the declining contribution of gold to total exports and the improvement in exports of manufactures, especially processed metals. Until very recently, the rest of the South African manufacturing sector has been producing mainly for the domestic market, relying on exports of primary commodities to finance its substantial import requirements. Within the last two or three years, other manufactures requiring intensive use of capital and skilled labour have competed very successfully in world markets. Unlike most other twentieth century industrialisers, South Africa has shown a low propensity to export labour-intensive industrial output.

Despite the fall in gold's share, mining contributed an increasing proportion of exports, accounting for 62% of the total in 1985. The platinum group metals, most of which are bought by the US (and have been exempt from trade embargoes) and Japan, constitute a major source of earnings.

Significant shifts occurred in South Africa's coal trade. The largest buyers of South African coal, Japan, Italy and South Korea, maintained their demand, and new markets have been found in Taiwan and in Europe, despite the EC sanctions. This offset reduced purchases because of sanctions by some large buyers of coal - France, Denmark and the USA (the latter two countries reduced their imports to zero).

The share of agriculture, fishing and forestry in total exports continued to fall as it did in the 1970s, accounting for less than 5% of the total in 1985 (as against 10% in 1971). The most important market is the EC, which, in 1986, took two-thirds of all fruit (fresh, dried and tinned), wool, yarn and frozen fish. Japan buys most of the country's maize and sugar exports.

Manufactured exports accounted for approximately one-third of total exports in 1985. Basic metals enjoyed the most spectacular growth; their share of manufactured exports went from a quarter to over half from 1978 to 1985. Some other capital-intensive exports, although still small in total, have recently increased fast: vehicles and transport equipment which increased foreign sales in 1990 by 66,1%, professional and scientific equipment (up 31,8%) and machinery (up 28,7%). The country also seems to be competitive in paper and paper products and in chemicals. All of these sectors make intensive use of capital and skilled labour.

On the other hand, exports of manufactured goods using relatively more unskilled labour have performed poorly. The fact that South Africa has followed a different route from that taken by other twentieth century industrialisers, developing capital-intensive manufactured exports without any appreciable increase in labour-intensive ones, is a consequence of the almost obsessive preoccupation with the protection of import-substituting industry which has characterised and shaped the structure of the economy since 1925, reinforced since 1960 by the threat of economic isolation.

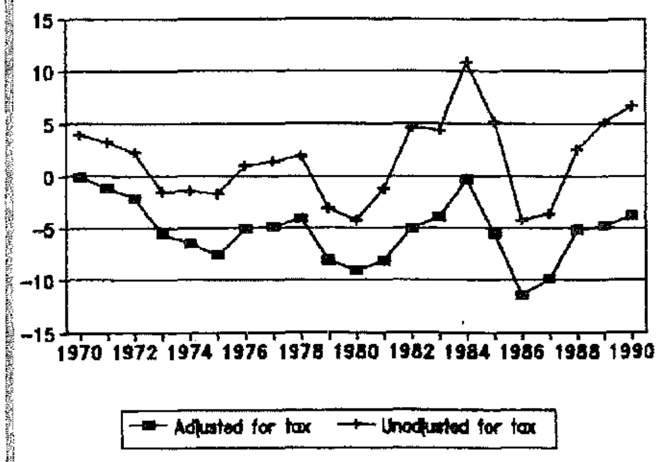
Methods of protection have changed: initially, tariff barriers were used to encourage production of finished goods for the domestic market; subsequently, low real interest rates and an overvalued exchange rate lowered the relative cost of capital (while maintaining the tariff structure). The General Export Incentive Scheme, introduced in 1990, reinforced the bias in favour of capital and against labour.

Real Interest Rates

The South African authorities tried to remedy the bias against labour by raising interest rates above the rate of inflation in the 1980s. Figure 8 shows that if the effect of tax rules are taken into account, the real cost of borrowing remained negative.

Business borrowers may deduct the cost of borrowing from profits before paying corporate tax. The post-tax

FIGURE 8: REAL COST OF BORROWING
Adjusted and unadjusted for tax



cost of borrowing was therefore substantially less than the nominal cost. For example, in 1985, the nominal cost of borrowing averaged 21,5%. Inflation averaged 16,3%. So the real cost of borrowing at prime rate appeared to be +5,2%. Any firm making enough profits to be taxed at the 50% rate, though, paid effectively only 10,75% on its borrowing after allowing for taxation, so that its real tax-adjusted cost of borrowing was negative at -5,55%.

Figure 8 shows that the tax-adjusted cost of borrowing was in fact negative throughout the 1970s and 1980s. It came closest to being positive in 1984, and in that year those paying above the prime lending rate for credit were paying positive real interest rates (the graph is drawn using the prime rate). Meanwhile, those firms not making profits were paying the real cost shown by the upper line in Figure 8.

The gap between the real effective rate paid by taxpaying and non-taxpaying firms is unavoidable so long as interest costs are tax deductible. The gap is larger the higher are nominal interest rates and inflation. The distortion can only be reduced by lowering the rate of inflation.

The fact that tax-adjusted borrowing costs remained negative in South Africa may therefore be part of the explanation why the economy failed to generate formal sector employment. The range of other government policies favouring the use of capital rather than labour (for example, tax incentives for investment that reduced the after-tax cost of capital) was in fact reinforced, not countered, by interest rate policy for most borrowers. Meanwhile, high nominal interest rates, by increasing the risk of investment out of borrowed money, were an investment disincentive. (However, high interest rates did, as intended, cause an inflow of short-term capital by the switching of trade finance offshore.)

Prospects for Exports

The question was posed at the outset as to why a large fall in the nominal exchange rate, and a change in interest rate policy, produced some, but not all, of the intended effects. On the one hand, total exports grew at an impressive rate. On the other hand, exports had also grown fast in the 1970s, some exports did not respond, the growth of GDP in the 1980s was disappointing, and formal sector employment in the non-government sectors of the economy did not grow at all, but actually fell.

The change in exchange-rate policy was only partially successful for a number of reasons. Bilateral real exchange rates only fell against some trading partners, and the biggest real exchange-rate falls were against precisely those countries which applied sanctions most seriously. The reductions in their imports from South Africa may not (in some cases) have been as large as officially reported, because of rerouting via third countries, but large falls did undoubtedly occur. It was easier to evade sanctions, or develop new export markets, for relatively homogeneous commodities; but this was generally more difficult for finished products; and investment in new export markets was discouraged by both the reality and the threat of sanctions. These factors explain some of the failure to expand labour-intensive exports.

On the other hand, the Southern African countries to which South Africa does export a full range of products were precisely those which maintained relatively constant bilateral real exchange rates against the Rand. Other African countries were either unwilling to trade or unable to pay, or both, although more trade occurred than was officially reported.

Interest-rate policy failed to shift incentives to more labour-intensive production because borrowing costs remained negative. Positive real borrowing costs (tax-adjusted) would require nominal interest rates to be very much higher; this would probably be unacceptable politically, and would impose excessively high real borrowing costs on producers not liable for tax. This dilemma cannot be avoided entirely. It would be reduced if inflation were lower.

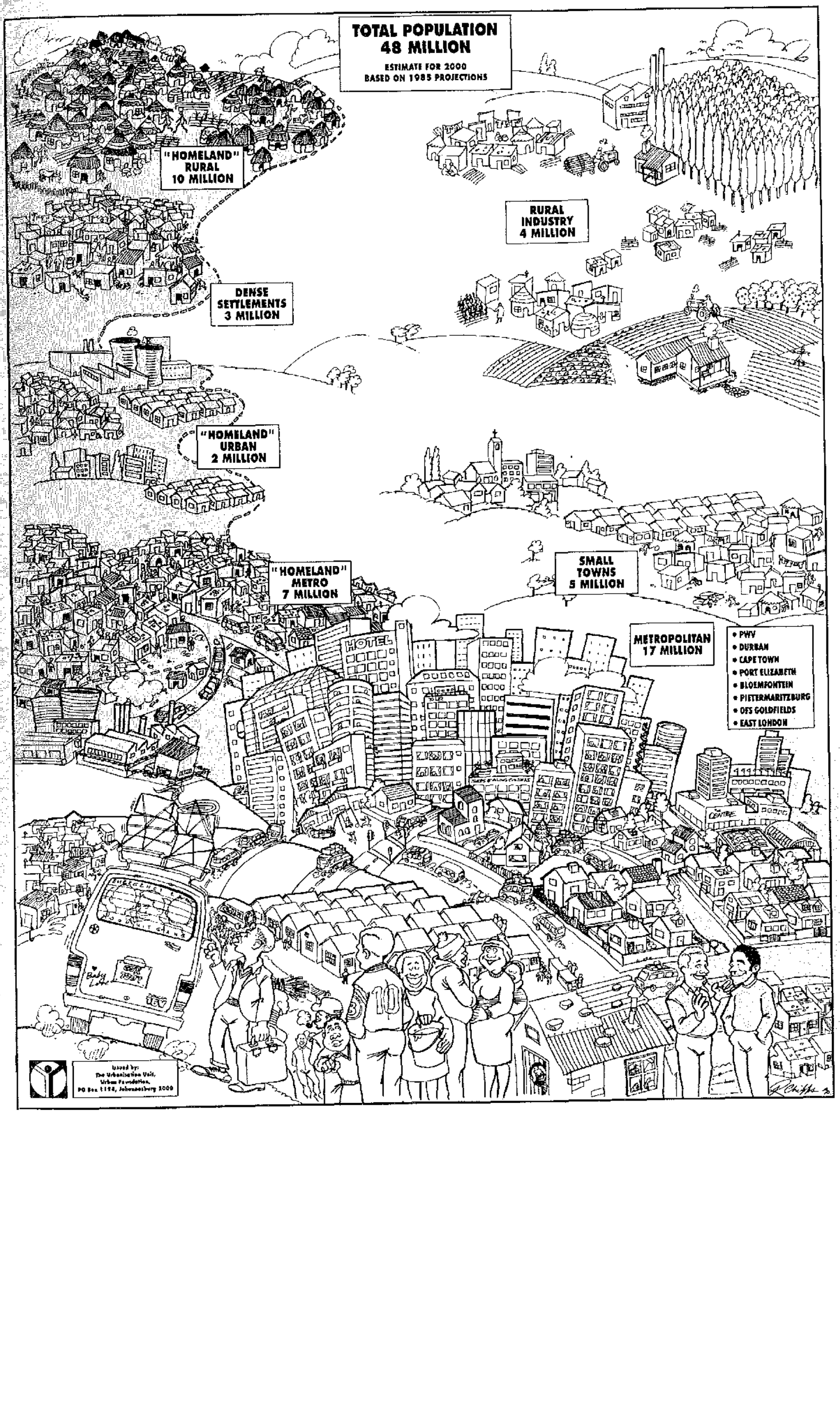
There are some reasons for expecting further export growth, especially if sanctions are removed, but the prospects for developing rapid growth of labour-intensive exports are less good because the constraints are more deeply rooted in the country's economic and political structure.

Using the exchange rate to ensure that existing exports remain profitable and competitive, and that it is profitable to develop new exports, is therefore absolutely necessary. Clearly, though, it is not sufficient; and while other currencies continue to fluctuate widely against each other, it will not be possible to have a consistent exchange-rate policy against all existing and potential trading partners. IPSA

RURAL & REGIONAL

M O N I T O R

INTERMEDIATE URBANISATION IN SOUTH AFRICA



THE ROAD AHEAD FOR RURAL DEVELOPMENT

The Honourable Jan Steyn, Chairman,
Independent Development Trust

South Africa faces a unique task of rural development as accelerated urbanisation follows on the removal of influx control and the apartheid system. In identifying an appropriate development strategy to promote rural reconstruction, Jan Steyn outlines the multiple challenges posed by population growth rates, rural poverty, land hunger and urban unemployment.

A process of displaced urbanism has come to characterise much of rural South Africa.

Oscillating migration between town and country has created a profound dependency relationship between the rural and the urban - with each sector having somewhat unreal expectations of the other. The unbalanced nature of the rural/urban linkage is the major structural cause for the levels of rural poverty found in South Africa. Yet urbanisation by itself is not a long-term answer to the problems of rural development, particularly where movement is targeted on the major conurbations; at best it may serve as a temporary release valve.

Firstly though, what is meant by 'rural' in South Africa, and secondly, what are the possibilities for 'development'? The major statistical sources define the rural essentially as 'non-urban' - i.e., those areas not being a proclaimed town, or consisting of population concentrations (5 000) commuting to such centres (peri-urban). This negative form of definition captures something of the essence of 'rural' South Africa.

Outside the commercial farming areas, rural dwellers earn less than 15% of their income from the agrarian economy - i.e., from crop-raising, pastoralism, fishing and forestry. Nor are they peasants. Reliable data on the rural subsistence economy is sparse, but only a very small minority of rural households may be considered as deriving 50% or more of their means of livelihood from subsistence production.

In any event, less than 20% of the land area of South Africa is suitable for arable production, and over half of this is under large-scale commercial production (agriculture as such accounts for less than 6% of GDP). The constraints imposed by uncertain water supply and semi-arid climatic conditions over most of the country clearly further limit what is possible for the small-scale sector.

The road ahead for rural development in South Africa will therefore clearly be a significantly different one from our continental neighbours, and certainly will be in strong contrast to countries where rainfed agriculture provides the backbone of rural life (as for most of Asia). The creation of a core of effective small-scale farmers who can help to transform the rural economy will only be a small (although important) part of the strategy, rather than a dominating theme.

The unbalanced nature of the rural/urban linkage is the major structural cause for the levels of rural poverty found in South Africa

Intermediate Urbanisation

Paradoxically, a process of small to intermediate urbanisation may be the most appropriate strategy for rural development in South Africa.

In contrast to metropolitan South Africa, where housing is undoubtedly a priority, the nature of local-level urbanisation will initially be concerned largely with the development, utilisation and protection of the natural resource base. Within this process, the supply of basic services (water and sanitation, electricity and energy) and the protection of the resource base (conservation) are central.

Next in importance are means of enhancing the generation and retention of income within rural communities, rather than

Local-level urbanisation will initially be concerned largely with the development, utilisation and protection of the natural resource base

allowing this to be extracted to the large urban sector, as is the historic tendency. This perspective emphasises the importance of seeing rural development as a long-term, nationally integrative process which seeks to redress imbalances in income-earning opportunities, and aims to rebuild the quality of life in the rural areas.

Certainly, efforts should be directed at helping to develop the strength and abilities of rural communities to bring about this transformation themselves. Whatever the constitutional order or political complexion of government, the task of rural construction will be a long and arduous one. However desirable, rural communities cannot possibly have their full needs met through the public sector budget. In mobilising themselves, rural communities should be able to achieve more than what a passive dependency on the state would achieve.

The primary target for funding should therefore be community organisations and associations which aim directly at the upliftment and transformation of the quality of life of the rurally disadvantaged, in accordance with the strategic perspective outlined above. In addressing this goal, it is necessary to have some understanding of the peculiar vulnerabilities and stresses which confront the rural poor. These are very wide-ranging, and there are enormous needs.

Economic Linkages

The demographic structure of the rural population of South Africa has been undergoing a major shift over at least the past three decades. In 1990, the division between urban and non-urban of the *de' facto* population (excluding foreign migrants) was as follows (figures in millions):

(million)	**Black**	**White**	**Coloured**	**Indian**	TOTAL
Urban:	10,3	5,0	2,7	1,0	19,0
Non-Urban	18,0	0,5	0,6	0,1	19,2

The trend has been for urban growth rates (at 3% pa) to decline slowly, while rural growth rates (at 2% pa) have slightly increased. These trends may now possibly reverse, as the urbanisation wave breaks. However it is clear that in absolute population terms, the rural sector is a major one.

This statistical snapshot illustrates the ethnic dualism of the urban/rural divide. The picture is incomplete without an understanding of the linkages created through migration, the age and sex selectivity of this process, the range of differentiation in black rural households, and the growing vulnerability of rurally-based families.

There has been a considerable debate over the nature of internal migration and urbanisation in South Africa; in general terms, it has been argued that the black population is essentially following a road pioneered by whites and others before them, tracing a path of migration from the dry to the wet rural areas, from rural areas to small towns and employment centres, and finally to a predominantly inter-urban form of migration.

The 'push-pull' model of migration is no longer an accurate description of this process since migration is now intimately linked to the prospects for survival and the chance to escape from poverty. In accordance with global trends, strengthened by local political and cultural norms, this has led to the selective extraction from rural communities of young males.

The removal of artificial barriers to urbanisation may permit this traditional pattern of 'maintained' oscillation to change. But while a massive influx to the towns can confidently be expected, the flow of workers, job-seekers and remittances between town and country is likely to continue for some time, and the point at which a new equilibrium will be reached is very hard to foresee. It is probable that as in many parts of urbanising Africa, those within one generation of living in a rural community will wish at least to maintain links with the home area, while there will be substantial regional variation in the degree of maintenance and in the type of urban-rural linkages.

A large part of the unknown here is the extent to which the South African economy will be able to restructure and develop to offer expanding employment opportunities. Given that rural-urban movements are so critically related to the search for employment, the level of access to employment will be a crucial determinant in the survival prospects of rural households. This has been well recognised.

The late Dr Simon Brand, for example, provided a powerful case for an economic development policy which has the explicit aim of increasing the disposable income available to black urban workers. One must, however, take note of Professor Servaas van den Berg's bleak warning that in the absence of an exceptionally high rate of economic growth, the prospect for increasing incomes through rising wage rates will be sharply offset by declining employment opportunities - a picture which is consonant not only with South Africa's recent economic history, but has many contemporary parallels.

It is apparent from a number of economic forecasts that the prospects for rising employment opportunity in South Africa largely depend on the potential for a shift towards manufacturing industry combined with a breakthrough into major new export markets. This will not be attained in the short run; and the work-force is unlikely to be drawn from the current pool of the unemployed. Consequently, the medium-term prospects for relief to the rural sector through access to urban wage employment are not good, and should not be counted upon.

Rural Household Profiles

The conditions of poverty faced by rural households are thus both serious and endemic. Compounding the low levels of access to income-earning opportunities, black households have internally very high dependency ratios: i.e., the ratio of (potentially) economically active adults within the family to young and elderly dependents.

By the year 2000 (on an AIDS-free projection) the non-black - and predominantly urban - population clusters will have more or less converged in terms of their demographic structure, with dependency ratios well under 50% (non-working:working population). But the level for blacks - which peaked at 90% plus in the late 1970s - appears set to decline only very slowly to the 75-80% bracket, with significantly greater imbalances for rural families within this figure.

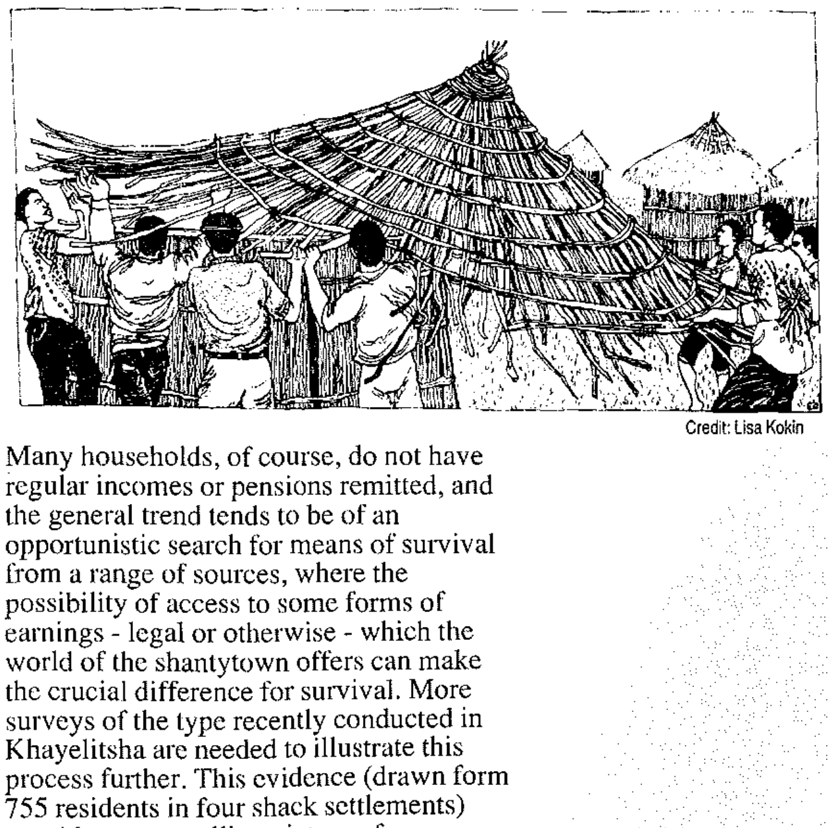
It is here that the true face of poverty may be seen. Even these statistics understate the situation, as they are based on an age bracket for the black economically active population of 15-64 years, which is unrealistically high at the top end. A recalculation of the figures with age 54 as the cut-off point, and a less conservative estimate for the share in the total black population of children under 15 years, would push the overall dependency rates significantly higher.

The model is thus one of a nested set of relationships of dependency, in which rural households survive by virtue of their ability to build up a variety of income sources, of which production from the land may be only a small fraction.

Those households which do predominantly engage in agriculture are a very small proportion of all households resident outside cities and small towns. Even here, for the large majority, agriculture only provides a supplement to remitted wages and pensions, and hence the development strategy which is required should, paradoxically, not necessarily be primarily concerned with agricultural activity.

The existence of such rural producer households within a community is however an important part of the survival strategy of households more obviously dependent on remitted incomes, as these enable labour-migrating households to cope better with the risks and uncertainties of the absence of bread-winners. Interesting evidence has emerged from the Transkei (Matatiele) of the fragility of these remitted incomes, and the role of settled households in sharing the burden of dependency.

The trend for urban growth rates (at 3% pa) to decline slowly and rural growth rates (at 2% pa) to increase slightly may reverse as the urbanisation wave breaks



Credit: Lisa Kokin

Many households, of course, do not have regular incomes or pensions remitted, and the general trend tends to be of an opportunistic search for means of survival from a range of sources, where the possibility of access to some forms of earnings - legal or otherwise - which the world of the shantytown offers can make the crucial difference for survival. More surveys of the type recently conducted in Khayelitsha are needed to illustrate this process further. This evidence (drawn form 755 residents in four shack settlements) provides a compelling picture of a particular type of dependency, tracing as it does the rural-urban migration histories of households at the bottom of the income spectrum.

The medium-term prospects for relief to the rural sector through access to urban wage employment are not good, and should not be counted upon

Credit: Lisa Kokin

Within this rural-urban framework of dependency relationships, women have a particularly difficult role, constrained both in agricultural and non-agricultural employment markets, and yet required to act as the main copers for survival strategies. This double disability is compounded by generally lower levels of access to education and literacy opportunities. At the bottom of the survival ladder are the remnants of rural households - widows, orphans and the elderly without children - for whom the prospect is that of absolute poverty. In some areas, the process of impoverishment has extended so widely that the operation of safety nets provided by kin and neighbourhood groups is itself no longer functioning.

The conventional solutions for rural poverty - restructuring of ownership and production patterns within the agrarian sector - may not be effective

Rural households in South Africa are thus characterised by fragility and dependence of such magnitude that even slight adverse changes in the status of active gleaners will have large consequences. Conversely, the spread effect of even small initiatives in terms of access will be considerable. The enhancement of life chances for women in particular may have major beneficial effects in promoting a demographic restructuring.

Land Hunger

The conventional solutions for rural poverty on this scale are usually sought through a restructuring of ownership and production patterns within the agrarian sector. The above analysis suggests that this cannot be seen as the most effective road ahead for this country.

The solution at one level for a small proportion of those currently defined as rural dwellers may certainly be provided via land acquisition under a programme of land reform. This programme is seen as falling largely within the purview of the responsibility of the state.

Similarly, the provision of major services to a new cadre of small farmers in the form of irrigation, agricultural inputs, marketing and credit, and associated technical advice designed to promote commercial pastoralism and crop-raising is seen as being appropriately the task of specific public sector development and financing agencies.

However, there are appropriate areas of intervention related to these fields which have the perspective of community enablement. Rural employment guarantee schemes, public works programmes in association with land conservation measures, and food-for-work programmes aimed at the rural poor are examples of such programmes, provided that there is both a commitment of public sector (or other major donor) funding, and valid community involvement.

Similarly, the opening up of opportunities to small producers as outgrowers in nuclear estates (eg sugar, timber, fruit), which may in certain areas offer a considerable rural development opportunity, should be carefully considered. These offer the prospect of a powerful income multiplier effect to rural communities. In such initiatives, we should also look to a cooperative relationship with the private sector, which will be expected to play a positive role. Such initiatives will clearly also require appropriate research, and training and education for specific cadres within rural communities.

Agrarian reform is needed also in respect of the rights of land-users, whether these derive from tenancy, usufructuary rights, common property rights, or from putative freehold rights. Our policy should be strongly supportive of new initiatives in agrarian reform in this area of institutional and legal development, and the research and training which may be required to initiate it.

Community Organisation

There is a wide variety of type of community organisations which may validly represent the interests of the rural poor. By the nature of rural poverty, associative organisations face considerable difficulties in maintaining themselves over time and sustaining high and genuine levels of community participation. Many of those which do are likely to be groups, with explicit authority structures and strong hierarchies.

Functional interest groups which have developed around one or two issues of major concern - such as the pursuit of secure land tenure or residential rights, mutual defence organisations, burial societies - face problems in extending their concerns to more developmental issues. Given the inherent conflicts over resource access, it is also to be expected that for many organisations which seek to speak in the name of the rural poor, there will also be a complex agenda concerning the protection of certain elite privileges.

Good community organisations are those which have high levels of participation while remaining close to the grassroots; actively promote good information flows amongst members; maintain appropriate democratic procedures; and are capable of sustaining accountable institutions and methods. Such organisations will actively wish regularly to account for in financial terms, and report on in substantive terms, their progress, both to their own members and to supporting agencies.

We should seek to support those organisations which have found a means of promoting activities which are sustainable once the core funding is tapered out.

Rural development by its nature tends to require polyfunctional organisations, which while perhaps concentrating on one or two major activities such as produce marketing or credit supply, also provide subsidiary functions such as community education, transport, and recreation. It is often in these subsidiary areas that the target of genuine community participation is best judged and assessed.

Time for Action

It has only been possible to touch briefly on a new key areas of concern. What is clear is that rural development is not receiving the same degree of emphasis as its inter-related phenomenon of urbanisation.

I am deeply concerned at the rapid deterioration of the social fabric of our country. Whilst the struggle for power is pursued relentlessly, whilst constitutional models are being developed and charters of human rights designed - all essential components of a democratic future - the levels of poverty increase apace, the rates of unemployment and crime rise exponentially and despair not hope, becomes the hallmark of our society.

Leadership at all levels must be called to account by those who care about a better future for our people. It is once again time to stand up and be counted, challenging those - from whatever quarter they may come - who are employing a range of strategies designed to confer or to consolidate their power at the expense of the people of this country.

Let us identify guidelines, let us set goals, let us give emphasis to process - but in heaven's name let us get on and do something about it. IPA

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A land reform programme must be accompanied by rural employment schemes, public works programmes and food-for-work schemes

What is clear is that rural development is not receiving the same degree of emphasis as its inter-related phenomenon of urbanisation

'STAATSAMPTENAARS' AND 'DEVELOPMENT EXPERTS'

Julian May, Visiting Research Fellow, Centre for Social and Development Studies, and Aidan Cronin, Data Research Africa

The administration and the management of development expenditure is a neglected but worthwhile focus for investigation. Drawing on firsthand research into the activities of agricultural development corporations in the homelands, the authors discuss recent attempts to implement reforms and identify the institutional factors which may influence the future transformation of South Africa's public sector.

The process of constitutional change in South Africa has resulted in many fiercely contended issues concerning the transformation of the South African economy, including:

- the relationship between the distributive and growth activities that should be undertaken by the government;
- the structuring of public expenditure in order to facilitate the democratic process in South Africa; and,
- the desirable balance between rural, agricultural and industrial development in terms of available funds, manpower and resources.

It is difficult to separate the impact of remedial measures intended to deal with these issues. Differing actions may have conflicting goals, and are often the result of fundamentally different interpretations of the socio-economic dynamics of South Africa. Furthermore, aspects of poverty may well be caused by existing economic practices, and part of the solution may have to be found in restructuring economic and social practices as a whole.

Economic policymakers have little option but to weigh the growth and redistributive goals that may be pursued by the government as neither path can be pursued in isolation. This is especially critical if these goals are to be linked in some way, such as where redistribution is posited as an engine for growth, or as an anticipated outcome.

In this balancing act, the nature of actions undertaken by various government agencies is critically important, especially those agencies which are regarded as 'development institutions', such as the Development Bank of South Africa, the KwaZulu Finance Corporation and so forth. It must, however, be anticipated that government agencies are not amorphous, and that each will retain a specific identity within the overall operation of the state.

Government development institutions could become appropriate mechanisms for the regulation of the economy by redirecting resources and manpower, or they could add to existing problems by maintaining or indeed worsening existing imbalances and inefficiencies.

Agricultural development is a good example of the challenge of reforming public administration faced by South Africa. It is a particularly convoluted bureaucratic exercise, involving a marriage of specialist development expertise, government procedures and officialdom. State sponsored development administration of agriculture in South Africa is also unique in terms of its extensive and decentralised structure, with each homeland having its own network of government departments and parastatal agencies (see boxes).

How can this complex system of development administration be transformed?

Administrative Reform

The successful implementation of development policy will require increasing administrative capacity, and reorienting it towards a post-apartheid society. This, in turn, will probably require major administrative reforms, some of which are already being pursued by various government departments and agencies in an effort to adjust to the changing political order.

Reform programmes need to be specially designed and coordinated if they are to induce fundamental, system-wide changes in public administration. Measures for the improvement of key elements, such as administrative structure, regional organisation, budget management, planning processes, personnel practices and so forth, might also assist in the process of change if linked to national goals. Ad hoc measures, such as those which appear to be presently underway in many parts of public sector, may simply entrench present systems of administration under a guise of change.

To be effective, the objectives of any administrative reform programme would need to be clearly spelt out for different levels in order to provide, at least, the basis for the evaluation of results. Specific attention may need to be paid to the preparation and implementation phases so as to involve all concerned in the reform process, including the beneficiaries. This would minimise uncertainties and resistance to change which could potentially derail efforts.

Implementation would have to include training, communication of new objectives and standards, provisions for feedback and corrective action, and assistance in installing new systems and methods. Finally, a sustained programme for follow-up would have to be prepared and implemented.

The Development Gravy Train

Physical Resources

- The De Loor Commission report (1990) estimates the present book value of assets of corporate institutions in the TBVC homelands to be R1 843m, and that of the 'self-governing' homelands to be R1 734m.
- Well-developed networks of district offices and service centre buildings have been established in the homelands.

Financial Muscle

- The agricultural development establishment in South Africa had access to substantial budgetary resources amounting to some R645m in 1989/90 for the homelands alone.
- In addition, the Department of Agricultural Development and Marketing was allocated a budget of R289m in 1989/90 and the Department of Development Aid allocated some R100m to agriculturally linked activities.
- In total, R1 750 million was budgeted for agriculture in 1989/90, of which some 65% was spent on white farmers.
- There is little variation between the homelands in terms of the proportion of the total budget that is made up by agriculture - on average about 5% of their total budget is allocated to agriculture, natural resources and forestry.

Co-Ordination

- Established to promote inter-regional coordination of development intervention, the Secretariat of the Economic Community of Southern Africa (SECOSAF) was seen by its creators as a regional 'United Nations' in which policy issues could be debated.
- SECOSAF consists of 16 permanent policy bodies, 60 permanent multi-lateral and regional committees, and 90 ad hoc task teams.
- SECOSAF arranges 20 to 25 inter-homeland meeting per month, each of which requires a similar number of preparatory meetings by each homeland, i.e. some 900 meetings per annum. It provides a support service to more than 1 700 delegates (Van Niekerk, 1989:61,65).

It must, however, be realised that administrative reform cannot be divorced from other political processes in South Africa. It is not simply a collection of administrative and managerial measures taken to address a new type of technical problem. Instead, administrative reform is a political process designed to adjust the relationship between a bureaucracy and other elements of society, whether representing specific class interests, other components of the state, or within the bureaucracy itself.

Moreover, apartheid has meant that management positions in the development industry are dominated by whites, many of whom have been closely associated with the implementation of elements of apartheid legislation. As a result, almost all development institutions have been constituted along racial and ethnic lines, and most government development agencies have had track records of failure.

To follow a participative approach to structural reform would certainly have merit, as would a highly systems-orientated approach. Both approaches, however, run

Agricultural development is a good example of the challenge of reforming public administration faced by South Africa

the danger of the acceptance of the existing management and governing structures of South African development institutions. Instead, a far more dynamic approach would be an active engagement between government managers, community groups, non-governmental organisations (NGOs), political lobbies and the like, at all levels, and on as many issues as possible.

While this process would render the production of a blueprint for administrative reform virtually impossible, it may be far more appropriate in terms of the fluid nature of change in South Africa. Furthermore, it is perhaps far better attuned to the socio-political realities of development intervention in Africa as a whole.

Appropriate Institutions

In essence, the role undertaken by the development agencies is the administration of subsidies, of some form, to selected groups. Conceivably, these subsidies could be in respect of inputs, including land, capital and infrastructure (that is, affecting the cost of production through factor policies), prices (that is the manipulation of purchasing prices through commodity policies), and the provision of research, extension and training (subsidising the cost of the development and dissemination of technology).

Administering Agriculture

In addition to the Departments of Agriculture of each of the three Houses, the Land Bank, the various marketing boards, the Development Bank (DBSA), the now defunct Department of Development Aid (DDA) and the South African Development Trust Corporation (STK), most of the homelands have developed an institutional framework consisting of:

- A Department of Agriculture, which takes responsibility for operations, projects, community development and extension throughout each homeland and on both tribal, government and privately owned land.
- A parastatal, which takes responsibility for the development of commercial farmers, plantation schemes and agro-industrial projects.
- An agricultural bank, which provides credit to commercial farmers.
- A land allocation board, which deals with the allocation of newly consolidated land (SADT land) to prospective farmers.
- A marketing board, which manages product storage and sales from both the government run plantations as well as the commercial farmers.
- A maze of multi-lateral and unilateral committees which address a wide range of issues related directly and indirectly to agriculture.

In addition, numerous other government departments are involved in activities broadly linked to rural development, and a range of non-governmental organisations (NGOs) have arrangements of finance and assistance from the state. In Transkei, for example, a recent government report estimates that there are at least 20 agencies involved in agriculture and rural development.

Recent debate on rural and agricultural development has tended to focus on five main themes: land reform; finance; the formation of national policy; regional implementation; and the development of smallholder farming. The resolution of these issues all have specific institutional implications:

❑ ***Land Reform***

Many recommendations for land reform in South Africa take the redistribution of government-owned land as a starting point. This land is, however, frequently located in the marginal areas of South Africa, often adjacent to the borders of the existing homelands.

Another strategy for land reform that has been put forward is to take over or buy out land owned by indebted farmers. This land is likely to have been super-exploited, however, as farmers attempt to wring extra production out of the land. As a result, a government funded and managed caretaker role may be necessary to re-establish the productive basis of this land before it can be resettled. The actual allocation of land is another controversial area of public administration in which there is a risk of bureaucratic delays and corruption.

❑ ***Financial Reform***

The necessity and rationale of a central development finance bank such as the DBSA or Land Bank ought to be critically examined before assigning an institutional role for such an organisation. Questions include: the potential of such an institution to contribute towards the transformation of the economy; the cost of operation; the composition of the governing body and management; and the links which need to be in place between agencies such as the Reserve Bank, the DBSA, finance trusts, the central and regional government's departments of finance and expenditure as well as international institutions such as the World Bank.

❑ ***Policy Formation***

The creation of an appropriate forum may well prove necessary for the formation and coordination of national development policies. If so, this should not be based on extensive bureaucratic practices which rapidly become moribund. The emphasis should be on providing guidelines, setting national and regional goals, and defining the means of measuring progress towards these goals. Should a regional approach be followed, then a coherent method would need to be developed whereby national policy can be interpreted and implemented into regional and operational policy.

The monitoring and evaluation of government activities, data collection, and financial control are also important areas where responsibility would have to be assigned and which could form a key specialist area within regional development agencies. The question of regionalisation itself is a critical policy issue.

❑ *Smallholder Farmers*

Proposals put forward by the DBSA and others recommend a radical and dramatic extension of black smallholder farming. This implies massive expenditure on support for small farmers which will involve direct costs for farmer selection and training, extension, credit, input and marketing support, and indirect costs in institution-building and development programmes which include adaptive research and appropriate conservation.

These recurrent costs will probably exceed those costs involved in the original acquisition of land. As such, the type, nature and functioning of institutions charged with the provision of agricultural support under this programme is of concern.

Furthermore, if cooperative forms of ownership are encouraged in South Africa - and this might be necessary due to the poorly developed capital base of individual African farmers - then a 'sheltering organisation' may be essential for cooperative enterprises operating within a market economy. When single and operating in isolation, producer cooperatives tend to be disadvantaged in raising capital and would thus benefit from privileged access to government funds.

In addressing these issues, conventional government departments have frequently been shown to be too rigidly defined to successfully engage in development programmes. Other forms of government organisation may be better equipped for change although the cost and structure of these will have to be carefully examined to avoid the continuation of present conflict. Furthermore, alternatives to these approaches need to be considered, including the potential input of NGO's and the private sector.

Finally, and obviously, those structures which are to administer subsidies imply additional distribution costs for government fiscal policy which must be offset by the benefits of introducing such structures.

Reforming Development Administration

1985	From pursuing a policy virtually unchanged from its predecessor, the Corporation for Economic Development (CED), of funding large- scale projects, the DBSA appears to have undergone a fundamental change in direction in its Position Paper of 1985. The DBSA was restructured around this approach in 1987.
1985	A secretariat for inter-regional coordination of development intervention was established in 1985 which was renamed the Secretariat of the Economic Community of Southern Africa (SECOSAF) in 1988.
1988	The Land Bank Act of 1944 was amended to enable the Land and Agricultural Bank to finance farmers in the homelands, via the homeland agricultural institutions.
1988	Act No 46 of 1968 was amended to enable the South Africa Development Trust Corporation (STK) to operate with all homelands if requested;
1990	The Independent Development Trust was established although its role in agricultural development is not yet clear. It seems certain that actions to promote small-scale agriculture will form a part of any rural development strategy that is adopted.
1990	The De Loor Commission was convened to investigate the rationalising of development aid. The report proposes a central coordinating institution which advises the government on its development assistance responsibilities, acts as facilitator, provides direct financial transfer to development institutions and monitors the system as a whole. In addition, the report recommends the establishment of a corporate 'family' of development institutions based upon an integrated, functional and regionalised grouping of development institutions.
1991	The White Paper on Land Reform (WP B-91) proposed a National Rural Development Corporation but was subsequently scrapped after opposition from a wide range of organisations.
1991	The 'National Regional Development Programme' report has been recently completed. It is based upon mathematical modelling of the comparative advantages of the existing development zones.
1991	The Department of Development Aid has been singled out to be abolished with an increased role to be played by the Office for Regional Development and the Department of State Expenditure.

❑ *Regional Administration*

The resolution of alternative approaches to a spatial structure for development planning, administration and decision-making is implicit in any discussion on policy change. The rationale for allocating specific components of development administration to differing levels of government is critical as very different results can be produced according to the type and way in which administration and planning activities are centralised or decentralised.

A critical examination of the desired outcomes of any process of regionalising authority may serve as a sounder basis for determining policy on regionalisation and local government than would mathematical modeling.

State-sponsored rural development agencies in South Africa have undergone the same crisis of legitimacy as the government itself, particularly in the homelands

In this respect, the role of the present Regional Development Advisory Committees (RDACs) might merit further analysis. At present it appears as if the RDACs are not particularly effective institutions for regional consultation and community participation. Likewise, the existing structures for coordinating and financing development action are cumbersome to the point that even government agencies simply avoid participating in these bodies.

Alternatives are needed to rationalise these systems. A starting point would be to at least identify the essential issues for coordination, and to restrict the bureaucratic apparatus to these.

Crisis of Legitimacy

State-sponsored rural development agencies in South Africa have undergone the same crisis of legitimacy as the government itself, particularly in the homelands. Often, these agencies have implemented unpopular state actions, of which 'betterment planning' is one of the most noteworthy, and most have a history of alleged corruption and mismanagement. As a result, it is probable that lobbying for new institutional forms of development intervention will form a part of the negotiation process.

Without revising the process of public administration, the impact of state expenditure required to implement new policy may not be felt

It would however, be naive to expect that a change in central or regional government on its own will revitalise community confidence in government development actions. The crisis is not simply a matter of poor marketing on the part of the development establishment.

Far more fundamental changes might be required in the way in which the government becomes involved in development action. This would include issues such as government management of projects, direct government funding of projects, project based planning and financing, the role of regional government, non-government organisations and the private sector. Ultimately, the issue to be resolved is how government resources can most effectively be employed for development action, taking into account the legacy of the past, and current attitudes towards government intervention.

Nonetheless, despite this crisis of credibility, it must be realised that rural communities have demonstrated remarkable ingenuity and ability in taking advantage of the resources that were available from the development corporations. Communities should not be perceived as being powerless victims even in the case of heavy-handed government action, and if equipped with the skills and confidence, they may be able to negotiate for resources with government agencies. The provision of skills in a supportive, advocacy role is one possible action that could be undertaken by non-government organisations.

It would be a mistake to assume that administrative reform on its own will assist the agricultural sector, address equity problems or satisfy the needs of impoverished households. This is equally true of most other areas of government activity. Restructuring the administration of development activities will be directly linked to the form and way in which wider change occurs. Newly created or restructured development institutions such as the National Rural Development Corporation proposed in the scrapped Rural Development Bill are unlikely to be able to reformulate development policy in South Africa without reflecting past prejudices and interests.

What is important, however, is that once the formulation of policy determining the redistribution of resources for the 'New South Africa' is complete, further policy will be needed that determines implementation. Without revising the process of public administration, the impact of state expenditure required to implement new policy may not be felt, perpetuating an expedient but unhappy union of bureaucrats and specialists. IPA

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LEARNING FROM HISTORY

THE RURAL DEVELOPMENT BILL

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The Rural Development Bill, one of the five bills in the White Paper on Land Reform, was withdrawn after it met with widespread criticism. The stated objectives of the new legislation included both equity for rural people and efficiency in developing South Africa's limited land resources. Drawing on comparative experience and international development criteria, this evaluation concludes that the approach underlying the Bill is seriously outdated, that the proposals run contrary to current practice and that the ownership rights are too restricted.

The Rural Development Bill attempted to provide land ownership rights to meet both development criteria and the aspirations of the African rural population. Based on restricted ownership, this type of land reform is not an effective route to economic farming: instead, it is likely to lead to the substitution of informal tenures for the formal legal tenure set out in the Bill, without having positive effects on agricultural production or on land hunger.

At the same time, this type of initiative may have the unintended consequence of driving the rural population into the cities at a time when the cities are struggling. Many new arrivals will fail to find jobs, housing or access to welfare services. Since little funds will be available to cover this inflow, there is a real chance that the system will break down under the strain, causing wide-scale disruptions.

While the urban-directed sections of the White Paper legislative package offer genuine gains in making provision for urban settlement, if enacted the Rural Development Bill would have simultaneously undermined these gains.

Blueprint Planning

The Rural Development Bill reflects the priorities of planners rather than farmers, and is centred on administration rather than on production. Most decisions are taken away from the farmer. The Bill makes land available to only a few selected candidates, fixes the size of landholdings, controls farming practices, forbids non-agricultural use of land, lays down who may live on the land, and generally holds control of resources in the hands of the Minister rather than the farmer.

This type of planning, which lays down so-called 'blueprint' categories and expects farmers to fit into them, is now seen as counter-productive and therefore rejected by the international development community.

In South Africa, the unfortunate history of betterment confirms that poor land use cannot be prevented in this way. Instead, the restrictions only serve to make it much harder for farmers to enter the market, and to demoralise and marginalise new farmers. As it stands, the Bill makes little or no attempt to facilitate production or to help farmers to make their own decisions for efficient agriculture.

The Bill makes little or no attempt to facilitate production or to help black farmers to make their own decisions for efficient agriculture

This top-down, centrally planned approach is directly opposed to the position of the World Bank and the international development community. The World Bank has accepted since the 1981 publication of the Berg Report, that African farmers are highly efficient in responding to market opportunities if they are freed from governmental and other restrictions and given access to the market. US AID and other donors have followed the World Bank's lead.

As it stands at present, the Rural Development Bill, therefore, cannot be accepted or supported by either the World Bank or the international donors. If enacted, it would work against making South Africa's efforts at land reform internationally acceptable.

There are in fact many rural land use practices which are of real concern in South Africa: however, most of these are traceable to the serious overcrowding of African rural areas and would respond to an effective land reform. Undesirable cropping and grazing practices can better be controlled by effective conservation legislation than by encumbering tenure restrictions. While productive agriculture can only too easily be excluded by bad tenure arrangements, tenure by itself cannot create good farming.

CASE STUDIES OF PRIVATISATION

Under Africa's Third World conditions, wide-reaching attempts to promote land reform through privatisation have tended to be expensive failures. Kenya is the usual case in point, but attempts have also been made elsewhere (see other boxes):

Kenya

After the Mau Mau Emergency land holdings were consolidated and titles registered at unprecedented cost. Higher production followed, but it is impossible to establish how much was due to the reform and how much to the lifting of restrictions on African farmers, extension and the opening of new markets. Landlessness and land fragmentation increased, however, and women tended to lose tenure rights. Holdings were not economically viable and purchase loans were not repaid. Unregistered subdivision has become the norm. More recently, agricultural production has slowed and dispute settlement returned to local elders, replacing legal ownership tenure with informal indigenous tenure.

Agricultural Production

The factors that actually limit efficient farming lie outside the tenure system. Rather than ownership rights, the most important limit on rural agriculture is the risk factor. Throughout the First and Third Worlds, risk - the 'safety first' factor - is the most significant constraint for farmers: the problems of South African black farmers are concentrated here and in land access, rather than in tenure institutions.

Looking at risk means considering agriculture from the standpoint of the farming household rather than in terms of administrative goals. The position of peasant farmers has been compared to that of a man standing up to his nose in water: the smallest move can drown him. Impoverished farmers do not dare adopt new practices or try for maximum production at the expense of safety.

The typical low-production African approach to farming stems from poverty. To grow a number of crops while holding investment in inputs and improvements down to a minimum is objectively the most efficient approach in terms of minimising risks. Without attention to risk, this adaptation will reappear in the new settlement schemes and undercut production goals.

The approach followed in the Rural Development Bill largely ignores the real risks seen by new farmers faced with high start-up costs and competition from established industrial agriculture. When white agriculture was in its development phase, numerous expensive support measures had to be instituted to alleviate the risk factor. Further measures were taken to guarantee access to markets and to provide production incentives. Nothing similar seems to be offered to African farmers under the Bill's provisions.

Under administered private tenure, the farmer has little freedom to deploy his/her resources to combat risk: he/she stands the entire risk alone, without the land-based community networks which support families against the risks of job loss or crop failure. Under the Bill's provisions the farmer appears unable to shift unused land to other families, or obtain extra land himself at need without going through elaborate permission procedures. From the standpoint of the farm household, this kind of plan is loaded with incalculable risks.

Ownership Reforms

Land reform through some form of ownership has often been tried in the Third World in the hope of stimulating market production. The great majority of these attempts, including privatisation, have failed (see boxed case studies). Those that have had partial success have served so few candidates and cost so much in extra infrastructure and services that they bear slight relation to the needs of the rural majority in South Africa.

In the Ciskei, black small farm ownership became available in some districts under the Glen Grey Act of 1894. Since title was secure, Ciskei landowners turned more to migrant labour and were more inclined to neglect their land than were residents of 'communal' areas, who could lose their land for not using it. In 1957, little difference in agricultural output per hectare was recorded between privately owned land, 'communal', quitrent, trust, and restricted 'freehold' land. The situation does not appear to have changed very much since then (Mills & Wilson 1957, de Wet 1987, Cokwana 1988).

The usual pattern appears to be that schemes which place a few well-qualified volunteer settlers on new land with expensive infrastructure and support sometimes seem to work for a relatively short period. However, after a few years the indigenous land ethic reasserts itself, subdivision occurs and the planned structure tends to be ignored. In South Africa, this outcome has occurred in many areas planned under betterment restrictions as well as in experimental 'freehold' areas.

Settlement schemes are now perceived to be expensive and very difficult to administer. Due to their high cost, it is impossible to establish them generally. Worldwide, few have been successful, and the trend has been to shift away from them (Hulme 1987). Both the World Bank and the Development Bank of South Africa have tended to give up on settlement schemes.

Reforms of these types, which are put in place from above, have put the priorities of government first and tended to ignore the concerns of the people on the land. As a result, a tug of war tends to take place between the imposed administrative system and the indigenous land ethic. With few exceptions, one of two scenarios follow.

The first scenario is that with the help of survey and vigilant policing, the administrative system holds the line and prevents tenure reverting: as with betterment, the usual outcome is demoralisation of farmers and stagnant agricultural output as people lose heart. The second, more frequent scenario is that the rural administrative system lacks the capacity to hold the official tenure system in place against continuing low-level resistance, and informal tenures grow and take over.

The Land Ethic

The term, 'land ethic' represents the indigenous African value system relating to land. Despite the variations in tenure between localities and regions, there are some basic common denominators.

Swaziland

In the 1950s and 1960s, a number of planned agricultural areas designed for higher productivity were established with surveyed fields, planned residential sites and irrigated gardens on individual tenure. Hughes remarks, 'The theory appears to have been that since this land was individually held ... agricultural development would proceed automatically ... Although agricultural techniques were probably marginally better than the average in the chiefdoms, they were not startlingly so. Nor was production very impressive' (1972:231). The land planning demarcation was gradually abandoned, until the tenure system approximated the indigenous Swazi model.

Firstly, African land systems are not 'communal' in the sense of sharing land resources. They can be better described as *communitarian* - land is held and transacted by individual households and individual autonomy is very much valued, but the interests of the group as a whole are powerful and often take precedence over individual preferences.

Secondly, the fundamental element is the principle that access to land is universal and free to all households - or, in the modern context, available for only reasonable minor charges. Land rights define community membership: no family which does not hold the land right qualifies for citizenship rights in the community. In addition, the principles of authority and of mutual assistance are tied to land rights.

No land system which reserves land access to a few members of the community can obtain legitimacy and acceptance under the indigenous land ethic

It follows that no land system which reserves land access to a few members of the community can obtain legitimacy and acceptance under the indigenous land ethic: tenure systems which deny universal access to land are anti-society and fundamentally wrong. This value structure supports a decentralised land system with a high degree of flexibility and responsiveness.

Thirdly, under the indigenous tenures, household land rights are transacted through consultation at grassroots level. Governmental structures are expected to oversee the working of the system and to confirm land transfers arranged locally, but not to interfere unless requested.

The right to determine who receives the land right - and thereby becomes a citizen of the community - has to be located at community level. If control here is alienated to an outside agency, the

The right to determine who receives the land right - and thereby becomes a citizen of the community - has to be located at community level

community's capacity to organise itself through bringing new members into its structures collapses. Nearly all state-designed tenure systems have denied this right, resulting in weak and demoralised black communities on the land.

Individual households trade off their belief in autonomy - control over their own land - against their belief in the value of the communitarian land ethic to protect themselves against the excessive self-interest of other, stronger parties. African communities tend to perceive the settled community as an island of morality and mutual assistance in a dangerous sea of hostile external forces. Against state intervention, the popular quest has been to retain the values of autonomy plus some degree of social protection.

Uganda

In colonial Buganda, the English administration gave out some 8 000 square miles as freehold to individuals who were identified as holding a pre-existing right to that land which the ownership title would confirm and secure. The reforms immediately led to extensive and sustained riots and civil unrest. From an original 4 000 owners, the number of claimants had increased to 45 000 - 55 000 by 1953 (Mukwaya 1953). Agricultural results were not clear, and land was often sold to meet non-agricultural needs.

Rigidly controlled state tenures are unpopular because they keep both the household and the larger community from using land on their own terms. Under indigenous tenures, land can be used to build local organisation. The state tenures - betterment, quitrent, trust tenure, restricted 'freehold' - prevent this by interfering with the right of local neighborhood groups to place and organise themselves by means of land. They substitute the authority of cabinet ministers, agricultural officers, or government-approved chiefs, indunas or headmen for the authority of the neighborhood assembly of household heads.

In contrast, the main objective of the informal tenures has been to keep land transactions decentralised and under the control of the parties themselves, subject to community oversight. Under these conditions, families can arrange to live in close contact with relatives and long-term neighbors on whom they can rely for assistance. Land-based survival networks are the only insurance against reverses and emergencies which are available to ordinary people in rural areas.

The land ethic and the indigenous tenure system demonstrate their essential value to rural communities. They revolve around social methods of risk management, but are not hostile to efficient production. In addition to helping families to survive amidst severe overcrowding and land shortage, the land ethic, with its emphasis on the good of the whole community, actually minimises crowding unless the land is privately owned.

Private Ownership

Since the last century, black-owned private land has probably always been more crowded than land in the 'communal' reserves. Jenkins et al observe that private land on the edge of the urban centres may accumulate tenants because of the profit in rent or in order to supply customers to shops owned by the private landlords (1986: 51, 55). Their extensive study also notes that site-rental tenancy only occurred on private land, and not at all on 'communal' land.

But in more rural areas, rents appear to be low so that profit is not a convincing motive for the characteristic density of tenants on private African land. Instead, the pressure exerted by the land ethic itself, for individuals holding relatively large tracts of unsettled farmland to accommodate the homeless, appears to be the significant factor.

Settled communities, as opposed to private landowners who appear to have more land than they need, can continue to cultivate but use the land ethic to justify holding available land for children of residents. The effect is to cut down the number of outsiders accommodated.

For instance, parts of Natal's Mariannhill district still under rural organisation have been under considerable pressure to accommodate in-migration from both rural and urban districts. Those areas which are solidly organised at ground level with operational civics have been strikingly successful in limiting the rate at which outsiders obtain entry (less than 3% per annum). In terms of the land ethic, the community aim is to ensure that settlement remains orderly, while community structure is not undermined.

In contrast, the one unorganised area of Mariannhill experiences uncontrolled in-migration at some 12% per annum: local power figures sell sites on illegal private tenure without the consent of the community, the planners or the counterpart municipality. Orderly development is not possible in this area and violence has become endemic (Cross, Bekker, Clark & Wilson, 1992).

In general, the 'communal' land in the Western Transvaal supports much lower population densities under strict entry rules and community control than the private black-owned land in the Eastern Transvaal. At Driefontein, which has been privately owned since 1912, occupation density reaches urban concentrations with a total population of 30 000. In contrast, the KwaNgema area, organised on communitarian lines, uses its effective civic structures to refuse new entrants if cultivation is to continue. The population density is 4 000 on a similar total area.

Informal Tenures

The cases cited help to delimit the characteristic tension between First World private ownership and the communitarian assumptions of the indigenous land ethic. In instances where conflict over resources becomes acute, cases have also occurred where the support of the legal system was not enough to sustain private tenure against the force of informal practice.

Land invasions are a case in point. In Zimbabwe after independence, a number of cases were reported of land-poor communities arriving overnight to settle on un-utilised private farmland. According to press reports, a number of these invasions were legalised *post facto*, as has sometimes also been the case in Latin American instances. In South Africa, such events can go further.

North of Durban, informal communities such as Lindelani near KwaMashu have been established through land invasions on state land, then legalised after the fact. More recently, the very large informal settlement of Inanda has apparently overturned private ownership rights which relegated the informal occupiers to tenant status.

Although virtually all the land which Inanda occupies was originally private and rented to homeless people as tenants, after the violence of 1985 the payment of rents to legal landlords apparently began to lapse. Many landlords seem to have left the area in fear or despair, and much of the *de facto* abandoned land has been bought by the South African Development Trust, extinguishing the original private claims to these tracts. Residents on the ground continue to occupy the land on informal tenure without payment, with very few knowing where the legal title lies. It is likely that the next step will be to expand efforts to grant some form of legal title to the informal occupants (Cross, Bekker, Clark & Richards, 1992).

Under unsettled conditions, the capacity of the informal tenures to contest land against the legal tenure should not be underestimated. With the legitimacy of the Rural Development Bill provisions in serious doubt and rural discontent regularly manifested in the form of violence, the provision of private land to small numbers of elite farmers may create further potential for serious disturbances.

Zimbabwe

In colonial Rhodesia, the Land Husbandry Act of 1951 was supposed to provide tenure security and correct the inequalities of indigenous land allocation procedures by offering a restricted form of individual ownership. A report (1964) noted that the legislation 'has not achieved what it was designed to achieve. It has not created a free market in land and cattle rights in the tribal areas ... On the other hand, it has created a landless class. It has created a great deal of ill-feeling (and) disturbed social stability ...' The Rhodesian government hastily repealed the legislation.

Common Properties

The cheapest, most flexible and most effective route to risk management and efficient production is through common-property forms of resource management, in which groups or communities are jointly responsible for land, farming and conservation in terms of the applicable laws. This approach is now widely accepted internationally, and forms of it are supported by the most respected authorities on land reform (Bruce, Lehmann, Atwood). All of these commentators emphasise the need to work through the present land arrangements and agricultural practices of farmers rather than force them into administrative moulds.

In Latin America, one possible model is the 'associatives' in use in the Dominican Republic, in which families farm individual holdings but operate as a community

There is a characteristic tension between First World private ownership and the communitarian assumptions of the indigenous land ethic cooperative in allocating land, buying supplies and dealing with the outside world. These common property groupings emerged spontaneously from failed land reform cooperatives. At the same time, the planned private holdings in Dominica also appear to be converging on a similar type of semi-collective management structure.

In Zimbabwe, in thinly populated rural areas with enough game to sustain sport hunting, new forms of resource management planning based on common property have been endorsed by government planning agencies and seem to be making some headway. Under the Campfire program, regions, wards or villages collectively own wildlife resources. These units are empowered to sell use contracts to outsiders and distribute the proceeds to constituents after deducting their running costs.

These approaches emphasise that government intervenes only where facilitation is needed, works wherever possible through existing structures and social mechanisms, and devolves the maximum responsible initiative to farming families and communities. By minimising the role of government administrators, flexibility and responsiveness are increased while costs are reduced.

Common property regimes tend to be more accessible to peasant farmers in risk terms than in administered schemes. Individual landholding is provided for, in that the group is responsible for arranging land for member families and ensuring that needs and aspirations are met at the level where they can best be assessed. By offering forms of tenure that respond to farmers' risk and needs, these regimes offer a way to prevent informal tenures substituting for unpopular, prescribed tenure forms and thus escaping from legal and administrative control.

Conclusions

With the high level of violence experienced today in South Africa's rural areas, a great deal is at stake in relation to land reform.

As it stands, the Rural Development Bill provides only a very narrow approach to the question of rural land. In the light of the evidence presented here, it is doubtful if small-scale settlement schemes on private tenure would be either acceptable or effective in terms of promoting efficient land use by the rural majority. Rural survival networks that depend on grassroots control of land access are also being put in question.

In South Africa, the broad approach to land reform - of providing land to a selected few candidates on conditional tenure and with heavy restrictions on land use - can be traced back to the Tomlinson Commission report of 1955. Long out of date, it is fundamentally unsound, and should be reconsidered in favour of an alternative approach which would concentrate on providing broader land access with incentives and enabling measures.

Although the Rural Development Bill attempts in good faith to offer broad-based land access through state-initiated and 'tribal' settlements, the risk factor means that in practice only the elites - those with secure non-agricultural incomes - would be likely to dare make the attempt. Under these conditions, part-time farming would replace full-time farming, making 'economic units' redundant. In addition, the settlement schemes would do nothing for the problem of rural poverty. Without heavy subsidies and insurances, ordinary people would be likely to find the proposed reform inaccessible. A backlash of bitterness and anger could result.

As agricultural risk increases and the threat of privatisation comes closer in 'communal' areas, more and more people will give up the struggle to remain on the land. Black-occupied land is now much too crowded to be productive, while the urban areas are completely unable to absorb any additional influx of the rural poor. Massive disruptions are therefore possible. Such displacement may be avoided by a more supportive and less rigidly prescriptive approach to the land question.

Working on the assumption of part-time farming, a wholly different, user-friendly approach, which capitalises on low-cost mechanisms for risk management and land transfer and gives greater flexibility, is needed to make the reform accessible to the rural majority. In addition, no pressure should be put on 'communal' areas to adopt private tenure: survival networks should not be threatened before the rural economy is ready to do without them. Instead, an accessible and broad-based reform which offers a range of tenures is needed to hold the line against large-scale displacement of population. IPA

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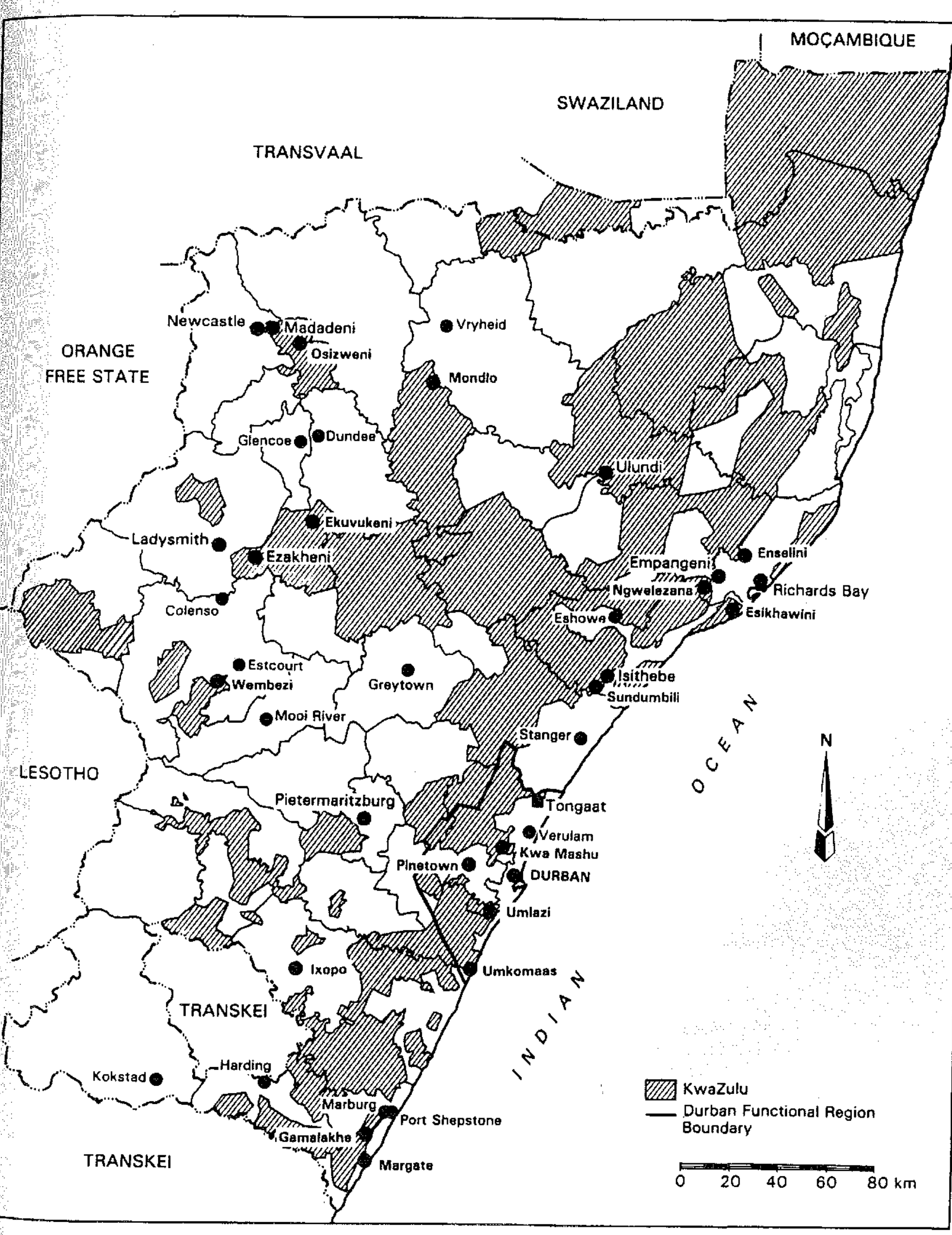
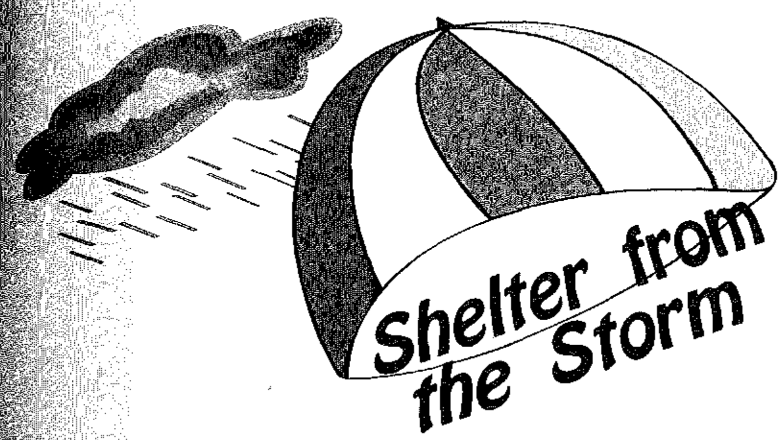
URBAN
MONITOR

URBAN CENTRES IN NATAL/KWAZULU





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The residents of KwaZulu/Natal are currently experiencing three dramatic processes of change. First, they are caught up in an irreversible process of urbanisation, which is sweeping away established lifestyles. Second, many communities are experiencing violent turmoil arising from competition over scarce resources and over differing values. Third, they are participating in a fundamental process of change in society.

NEEDS IN A NEW WORLD

Identifying the development needs of people caught up in South Africa's maelstrom of change is an elusive task. Accordingly, we should clarify what we mean by development needs. We should locate these needs in the urban places within which they are fashioned, and we should analyse them in the light of the residents' concerns and fears from which these needs arise.

Since development and politics are essentially interactive, we should also consider the development process itself since this process is in no way external to people's needs. Indeed, needs emerge during, and as part of, development interventions.

The development needs of any group of people are shaped in two ways. One way is by the material conditions of the world in which they work and live; the second is by the different manners in which they perceive these conditions. Accordingly, the needs of the urban dwellers of the KwaZulu/Natal region are defined both by their environment as well as by their experience of that environment.

Development, in a civilised society, is a process of improving the life chances and living conditions of citizens, in particular, of poor citizens. A discussion of the felt development needs of urban dwellers should, therefore, include a distinct poverty orientation, a special focus on the needs of 'have-not' communities.

The separation of urban dwellers into 'have-nots' and 'haves' is one of three important ways of analysing the community under discussion:

- The *haves* represent residents with a stake in their urban centres. This social category includes affluent middle-class groups, working-class groups who hold down regular employment, as well as home-owners.
- The *have-nots* represent urban dwellers who have no or minimal stakes, who perceive themselves as 'outsiders' in their urban centres. The have-nots tend to live in peri-urban informal settlements, to be unemployed, and to subsist at low levels.

The second important social distinction is between the *youth* and their *elders*. Youth usually see themselves as different from their elders. Relative to older age cohorts, their numbers are growing in the region and they are experiencing rising unemployment, disruption at their schools, and various other well-known challenges early on in their lives. As a result, youth often exhibit qualitatively different needs from their elders.

Finally, a cultural distinction between *black urban dwellers* African) and *other urban dwellers* needs to be made. Not only have

Black urban dwellers represent some three-quarters of the total urban population of KwaZulu/Natal

black urban dwellers borne the brunt of past apartheid policies (though Indians and coloureds have also suffered deeply), but many have moved to urban areas in the recent past and maintain an attachment to their rural heritage and their rural homes. Though this attachment does not mean that most black urban dwellers will return to these rural homes at some stage in their lives, it does suggest that their felt needs may differ in a number of ways from the needs of those who have shed all rural ties.

Urbanisation in KwaZulu/Natal

By far the largest urban concentration in the KwaZulu/Natal region is found in the Durban-Pietermaritzburg metropolitan core. This core grew most rapidly during the 1980-1985 period - at an estimated rate of 6% per annum - and is home to a little less than four million people today.

The KwaZulu/Natal boundary running through the core area divides this population into two roughly equal sub-populations, one living in KwaZulu and the other in Natal. Close to one half of these urban dwellers may be classified as have-nots, living in shack communities located on the peri-urban fringe.

More than half of the residents of the region are urbanised and will be living within the Durban Functional Region by the year 2000

Outside this metropolitan core, it is estimated by demographers that one million people live in formal urban centres, close to which an additional half million people live in informal shack settlements. The typical configuration of these urban centres embraces townships in KwaZulu (such as Madadeni/Osizweni) which are functionally linked to a town in Natal (such as Newcastle). Informal settlements (as found in the Madadeni district, for example) are scattered around these formal urban centres.

These formal, non-metropolitan urban centres can be classified in terms of size:

- The Newcastle/Madadeni complex, is the largest concentration, closely followed by Richards Bay/Empangeni. Some 400 000 people reside in each of these areas.
- The next level comprises four urban concentrations: Ladysmith/Ezakheni, Port Shepstone/Ezingolweni, Vryheid/Mondlo and Estcourt/Wembezi. Some 200 000 people reside in each of these areas.
- In addition, there are a number of smaller urban places in the region.

Youth, and black youth in particular, make up a large proportion of the urban population. Some 30% of black urban dwellers, for instance, were under the age of 15 in 1990. Black urban dwellers moreover represent some three-quarters of the total urban population of the region.

Urban growth in the region, accordingly, is driven by the process of urbanisation implicit in the picture drawn above. More than half of the residents of KwaZulu/Natal are urbanised and more than half will be living within the Durban Functional Region alone by the year 2000.

These trends, however, imply neither that the rate of urbanisation is increasing - it is in fact slowing down - nor that rural-urban migration is its main driving force - natural urban increase is undoubtedly more significant. Nonetheless, with regard to urban-rural proportions, the region has already passed the 50% mark, 'the point of no return' regarding a predominantly rural style of living, as one commentator has put it.

Popular Fears

In order to describe the major felt needs of the urban dweller, we need to identify their primary concerns and fears.

At a general level, research suggests that the concerns and fears of dwellers in the cities and towns of KwaZulu/Natal are surprisingly uniform: they comprise deep-seated economic concerns; fears regarding insecurity in their neighbourhoods and at home and work; and concerns about the future (particularly as it may relate to their children).

These general concerns reflect three widely-experienced trends:

- First, individual and family economic well-being is declining across a broad front.
- Second, low levels of tolerance regarding competition over political patronage, as well as over scarce resources, persist within a number of social groups. They find expression in cycles of sporadic violence, rising rates of crime and hooliganism.
- Third, during the current period of transition in the country, there is a widely shared sense of uncertainty about the future of the region, and accordingly, about individual and family futures.

In the social category which we have called the *have-nots*, primary concerns revolve around being able to consolidate a stake within the region. The *have-nots* aspire after gainful employment with a predictable income; permanence of tenure and adequate housing and services in their neighbourhood; a positive future for their children; and a measure of protection against the insecurity and conflict which they perceive as pervasive in many informal settlements.

Without the ability to consolidate such stakes in their communities, the have-nots believe they will remain outsiders, unable to participate meaningfully in their cities and towns.

Among *the haves*, the stakeholder groups, there is a prevalent concern about the potential loss of value in their stakes - be they financial investments, homes, other personal belongings, jobs, or general quality of life. This group also fears possible violent attacks on their persons, property and families, particularly from members of have-not communities.

Youth groups tend to interpret economic hardship and conflict in more immediate and, often, more politicised terms. They tend, accordingly, to lay blame for personal and family deprivation on the shoulders of political and economic actors, and on state educational authorities. Many of them, particularly in *have-not* communities, view their futures with an ambiguous admixture of high expectation and of resentment.

Shelter, Skills & Work

It is evident that shelter, skills and work are essential development needs. The development process requires a poverty orientation and these needs stand out as priorities in have-not communities. These three sets of needs, in fact, have repeatedly been selected as priorities in poor urban communities by a wide range of development experts.

Shelter - a permanent and valued home supported by adequate services - is the bedrock upon which an improved quality of life must be built. Skills and education not only contribute toward enabling people to become involved in gainful employment, but also address directly the concern many have about their children's futures. And work derives from economic growth which in turn is necessary to address housing and infrastructural programmes, as well as enriched educational services. Work addresses poverty.

Shelter is a priority need. A preliminary quantification of urban housing requirements over the next decade in the region underlines this fact. Using demographic projections, it is estimated that some 300 000 new dwelling units are required to accommodate new urban dwellers over the next ten years. In addition, some 320 000 shacks presently occupied in informal settlements need either to be replaced with serviced sites, or to be upgraded.

The scale of the challenge is huge, particularly in the Durban Functional Region within which two-thirds of this demand is located. And the necessity for new land earmarked for future residential development is integrally associated with this need for shelter.

It is worth noting, moreover, that urban dwellers express differing priorities regarding their need for shelter. Whilst housing issues often emerge as a priority in formal townships, the provision of basic services emerges consistently as top priority in informal settlements. This priority is progressive: shifting from one particular service, such as water, to another, such as transport, once delivery of the first is provided. Accordingly, planning should be carefully located within the progressive fulfillment of basic needs as articulated by community members.

Skills and improved education stand out equally as a major need. This need comprises three distinct elements:

- the current differential quality of, and per capita expenditure for, the five 'own affairs' educational systems in the region. The two systems catering to black pupils - by far the largest group - receive, in proportion to the other systems, deficient state support.
- the necessity to provide, over the next decade, schools, teachers and curricula within a single regional educational system tailored to meet future as well as present needs.
- the challenge to provide on-the-job and other adult training for the economically active, both employed and unemployed.

An emphasis on education as the primary social challenge should be qualified. Health services often tend to be placed low on the development agenda, possibly because of the dangerous assumption that such services are an exclusive state responsibility. The

The have-nots aspire after gainful employment, adequate housing and services, and protection against the conflict which pervades many informal settlements

The haves fear the potential loss of value in their stakes - be they financial investments, homes, other personal belongings, jobs, or general quality of life

Shelter - a permanent and valued home supported by adequate services - is the bedrock upon which an improved quality of life must be built

growing public awareness of the AIDS pandemic may be altering this assumption. The health challenge in the region is similar to the skills challenge.

Work needs relate directly to the need to address poverty. Unemployment rates are extremely high, currently estimated to be around the 50% mark. Simultaneously, some 40% of have-not households (in Durban) fall below the Household Subsistence Level. The often-stated necessity to stimulate employment generation - especially in the manufacturing sector - and to reduce poverty and inequality through economic growth bears repetition.

Finally, the focus here has been on the urban poor. Many, as we have seen, maintain rural ties and support rural relatives. The development needs of the rural poor are not independent from the those of their urban kin. Accordingly, they should be addressed as part of the same challenge.

Modifying Development

Urban dwellers typically articulate concerns and fears rather than needs. When given the opportunity to participate in the development process, in planning as well as in execution, they are better able to articulate their needs. Accordingly, this process itself requires attention and modification.

Development, in a civilised society, means meeting the needs of the poor for shelter, skills and education, health, and work

During the 1980s, the development process was overwhelmingly state-funded, state-driven and state-controlled. Within the apartheid ideology of the time, this resulted in highly centralised planning and execution, massive fragmentation of development initiatives at local level, and minimal participation by black urban dwellers in development initiatives.

Three major modifications to the development process were required. These modifications are currently emerging, some more rapidly than others, and in certain areas more visibly than elsewhere.

The first is an organisational restructuring of development agents and their relations to one another. Greater emphasis is being given to decentralised management and funding. In addition, a greater mix of private sector and public sector participation in the development process is appearing.

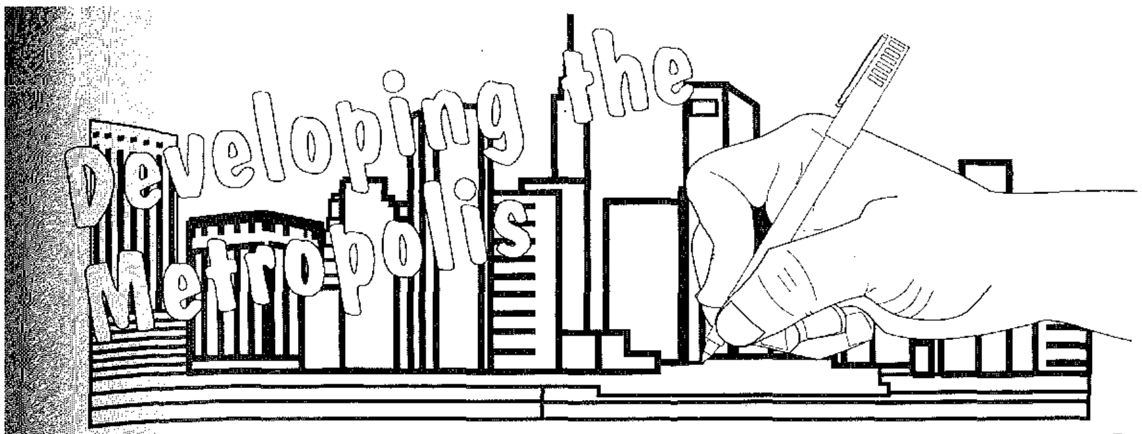
The second is a rationalisation of local and regional state bodies whose role as development facilitators (and as guardians of public peace) is primary. The fragmentation and duplication of public service delivery in KwaZulu and Natal is huge, and such rationalisation will, over time, minimise the costs and obstacles brought about by this state of affairs. In particular, the existence in all urban places within the region of a KwaZulu/Natal boundary is widely viewed as an obstacle which needs to be addressed.

Third, and most importantly, appropriate community participation (particularly via community organisations and NGOs) in development programmes is being introduced as a prerequisite for successful outside intervention into have-not communities. Without such participation, development projects (which are intended, after all, to address *felt* development needs) cannot succeed in human terms.

Development, in a civilised society, requires a fundamental poverty orientation. The needs of poor urban dwellers in KwaZulu/Natal have accordingly been given first place. The most important are shelter, skills and education, health, and work. In providing for these needs, this region commits itself to providing to all its residents universal access to essential productive and welfare services, services necessary to enable everyone to strive for a satisfactory quality of life.

To succeed in this provision, development activities require a stabilising political environment, an improved organisational structure, and an expanding economy. With regard to the latter, the region enjoys the prerequisites for expansion: an existing first world economic infrastructure, a locally sourced sophisticated business community, and an abundant supply of labour. As apartheid structures crumble, the business and development communities are mobilising. With sufficient development capital, these communities will be capable of addressing the challenge.

Success, however, requires one further element: development needs are in the first place felt needs, related as closely to experiences of deprivation and of poverty as to objectives indices of scarcity and of deficiency. It follows that participation by have-not communities in the development process is cardinal for success. IPSA



RSCs Revisited

Richard Humphries, Centre for Policy Studies, Human Sciences Research Council

Where do Regional Services Councils fit into local, metropolitan and regional government reform in South Africa? Are RSCs a tricameral dinosaur or a forerunner of fiscal federalism? In exploring the transitional and longterm roles of RSCs, Richard Humphries reports on interviews he conducted with leading RSC officials and on the debates at a recent national RSC congress. He concludes that RSCs are uncomfortably poised between contending tiers of government.

The process of establishing new non-racial local government institutions will have a profound effect upon the structure and functioning of Regional Services Councils. Established in the late 1980s as part of the PW Botha reform era, RSCs embodied the logic of the tricameral parliamentary system.

As South Africa moves towards a political system based largely on majoritarian political principles, political institutions at all three levels of government will have to be recast to reflect this development. The debate over the future of RSCs has gathered considerable momentum and will undoubtedly develop further.

Some indicators of this trend are the following:

In April 1991 the then Minister of Planning and Provincial Affairs requested the Coordinating Council for Local Government Affairs to reexamine the functioning of RSCs. Three subcommittees are presently investigating constitutional, financial, and service delivery issues around RSCs.

The Association of Regional Services Councils decided at its October 1991 conference in Pretoria to establish a constitutional sub-committee to develop its own position on the future of RSCs. Indicative of the political and functional uncertainties facing RSCs, the theme of the congress was the future role and position of RSCs.

In the Central Witwatersrand Metropolitan Chamber, participants recently agreed upon a series of far-reaching measures for an interim local government structure with implications for the functioning of the Central Witwatersrand RSC.

The dynamics shaping the transformation, or even the ultimate abolition, of RSCs are many and varied. Amongst institutional issues are questions of how the RSCs might relate to regional, second tier governments, metropolitan authorities and restructured primary local governments. The role of RSCs as suppliers of services is also important. Some of these issues are discussed below.

The process of establishing new non-racial local government institutions will have a profound effect upon the structure and functioning of Regional Services Councils

RSCs & Regional Government

Since their establishment, the question of how RSCs might evolve and relate to changing regional or second tier structures has cropped up from time to time within their ranks. The government has always described RSCs as 'horizontal extensions of local authorities', implying that they were firmly located on the third tier of government.

Although this description was accepted by the RSCs, some participants have tended to argue that they could supplant the provincial administrations in important respects. In its most modest form, supporters of this position argue that a

RSCs could become the units of a quasi-federal state in which no intermediate tier of government between central and local authorities exists

programme of radical devolution, covering many of the 22 functions which the RSC Act mentions as possible functions, could effectively see the shifting of some existing provincial functions to the RSCs. RSCs are also seen as possible recipients of existing central government functions (Delport 1991).

A more radical position holds that the RSCs could become the units of a quasi-federal state in which no intermediate tier of government between central and local authorities exists. This would involve some 50 constituent units of 'real grassroots democracy'. This general position has been bolstered by the notion of fiscal federalism, developed in the state bureaucracy in the mid-1980s. In terms of early exponents of fiscal federalism, RSC levies were seen as an important element and starting point for implementing such a policy.

Yet it would appear that while RSCs believe they should have a role to play in regional government, there is no firm consensus on what this could be. Also, the National Party's preference for a South African model of nine development regions might undercut or prevent the RSCs from staking too bold a claim to involvement in regional government. What is clear is that the provinces do not foresee any primary role for RSCs in regional government (Van Zyl, 1991; Dekker, 1991).

The NP's preference for a South African model of nine development regions might prevent the RSCs from staking too bold a claim to regional government

Yet the regional government debate will affect RSCs in at least two ways. Firstly, as new regional governments or administrations are created by combining the provinces and the homelands, the boundaries of certain RSCs will be extended to what are now the homeland areas. Here they will follow the example of the Joint Services Boards in Natal which, in another departure from RSCs in the other provinces, are responsible to the KwaZulu/Natal Joint Executive Authority.

In the other provinces the RSCs have always resisted the idea of extending their operations to the homelands on the grounds that this would open up a veritable bottomless pit of demands for infrastructural funding when compared with their limited levy income.

Table 1
Estimated Levy Income accruing to RSCs in SA

Year	Income
1989/90	R692m
1990/91	R902m
1991/92	R1 066m

Source: Bornman, 1991

For example, calculations by the Northern Transvaal RSC, quoted at the RSC congress of October 1991, show an estimated demand for infrastructural services in the adjacent areas of Lebowa, Gazankulu and Venda of just more than R1bn; whereas the annual levy income of the RSC is a rather paltry R17m. These statistics imply state aid for RSCs affected by these development needs and/or an increase in levy rates.

Secondly, the rather recent idea of sub-regional governmental structures and regions might create new roles for RSCs. Mr John Griffiths, Chairman of the Central Witwatersrand RSC, argues that RSCs might, under these conditions, undertake agency functions on behalf of regional governments. This would apply equally to future metropolitan authorities (Griffiths, 1991).

RSCs & Metropolitan Government

The final report of the Thornhill Committee, appointed by the Council for the Coordination of Local Government Matters, firmly linked the future of certain RSCs with the introduction of metropolitan government. Although there is some debate over how many metropolitan authorities might be introduced this development will have a fundamental impact on RSCs in such areas. At the RSC congress the State President said that only three (unnamed) areas were suited for metropolitan authorities; he argued against creating metropoles 'out of smaller cities' (de Klerk, 1991).

A basic issue is whether RSCs in these metropolitan areas would have to be abolished to make way for metropolitan authorities or whether they could be transformed into such authorities. Not unexpectedly, the RSCs argue that they are already a form of metropolitan authority and can be transformed.

Government policy on metropolitan authorities has probably been partly shaped by the as yet unpublished report of a Coordinating Council sub-committee on metropolitan government. Following press reports in October last year on the contents of the draft report, a government spokesman indicated that it had also been largely superseded by developments in the Central Witwatersrand Metropolitan Chamber (*Business Day*, 8/10/91).

In November last year the Chamber's participants agreed upon a wide-ranging package to end the rent and services boycott and to negotiate interim and final local government structures for the region.

This agreement affects the Central Witwatersrand RSC in various ways. Its short-term effect is that RSC budgetary and metropolitan planning functions will be drawn up or exercised in conjunction with various Chamber sub-committees. The more important changes to RSC activities will only come after June 1992 when, as part of the agreement's second stage, an interim metropolitan authority will be moved towards.

What exactly this means for the RSC is not clear but at least two possibilities exist. The first is that if a distinction is to be drawn between the interim authority and the Chamber then, given the legal standing of the RSC and its sources of revenue, it could be transformed into such an interim body with a wider membership than at present. An alternative would be to collapse it entirely into the functioning of the Chamber, implying the virtual demise of the RSC.

Johannesburg has already suggested that an interim metropolitan chamber could be created by combining the legislative powers and financial resources of the RSC with the 'participative legitimacy' of the Metropolitan Chamber. Decision-making powers would be vested with the Metropolitan Chamber, which would be simultaneously a governing and a negotiating body for the region.

The initial proposals of the Johannesburg Civics for an interim body made no explicit reference to the RSC and how it might relate to the interim authority.

Of all South Africa's metropolitan areas, Johannesburg is the most advanced in negotiating a metropolitan authority. However, in Durban and Pretoria similar negotiations seem imminent.

For those RSCs not affected by metropolitan authorities, at the very least, the determination of voting powers between different local authorities, their areas of jurisdiction and potential regional functions would need revision.

Financing and Services

Will RSCs in some metropolitan areas have to be abolished to make way for metropolitan authorities or can they be transformed into such authorities?

Perhaps the most crucial issue facing RSCs is that of the relationship between their financial base and their capacity to take on further services. This takes the form of a virtual conundrum: how to undertake a larger number of services while balancing the various financing demands being placed at the doors of RSCs. These financial roles include that of financing infrastructure provision, maintaining infrastructure, covering various operating costs (caused mainly by rent and service boycotts) and the costs incurred in service provision.

Tables 1 and 2 show that during the present financial year RSCs across the country are expected to raise some R1 066m in levy income. In so doing RSCs have become the main source of finance for infrastructural development in the townships (Bornman, 1991). However against the background of the rent and services boycott in the Transvaal townships, RSCs in the province have found themselves under pressure from provincial and central government authorities to shoulder a portion of the bridging finance distributed to Black Local Authorities (BLAs) to ensure the continued provision of essential services.

Table 2
Allocation of Expenditure by Service: Pretoria RSC - 1987/1992

Total expenditure: R433m for 399 projects

Electricity upgrading	35,6%
Road construction	17,7%
Water supply projects	16,4%
Sewerage	15,4%
Community services	14,9%

Source: Pretoria RSC information booklet, 1991.

Although these higher authorities suggested that 15% of RSC levy income be used for this purpose, RSCs in the PWV region have been much harder hit. The Central Witwatersrand RSC now allocates almost 50% of its budget for operating costs to its member BLAs. As indicated by RSC spokesmen, this diversion of levy income severely limits their capacity to undertake infrastructural development - intended as their major function.

Before this diversion RSCs were already struggling to match the availability of levy income with the demand by constituent local authorities for RSC finance. In the case of the Pretoria RSC, local authorities submitted claims for projects worth R314m

One consequence of increasing RSC involvement in service provision will be to aid the reunification of the South African city

in 1991-92, while projects worth R123m could be financed (Pretoria RSC, 1991).

Until now RSCs have tended to concentrate more on their upgrading role than that of providing regional services. In the OFS, only the bulk electricity function has been entrusted to RSCs and that with the primary aim of determining voting powers between local authorities. Six other functions are presently being considered. In the Transvaal, bulk water and electricity have been 'taken over', again primarily to determine voting powers.

Five RSCs undertake sewerage disposal and purification; while land use and transport planning have, or are, being considered by five councils. More minor functions such as cemeteries, abattoirs, recreational resorts and marketing functions are, or might be, undertaken in some cases (Bornman, 1991).

Besides the issue of whether local authorities would be willing to bear a loss of functions (and in some cases revenue from these services) to RSCs, the most costly potential functions which some RSCs are considering taking over is that of transport planning. One of the major reasons for the introduction of RSCs was the potential it held for the central government to divest itself of responsibility for financing subsidies, especially for commuter transport. Clearly on present levy rates this cannot be achieved, unless of course the government continues financing the subsidies.

RSCs facilitate both joint administrative structures and uniform service tariffs, key issues in negotiations with civics

Relatively minor adaptions to levy rates have been undertaken in some RSCs' jurisdictions but further increases seem inevitable given the contending financial pressures on the councils. The danger though is that the levy rates could be steeply increased in the face of these various pressures.

One consequence of increasing RSC involvement in service provision will be to aid the reunification of the South African city. This involvement is already being propagated in two guises - that RSCs should take the lead in drafting strategic urban development plans (Delport, 1991) and that RSCs should act as facilitators among competing civic groups.

Already some RSCs point out that they facilitate both joint administrative structures and uniform service tariffs - key issues in the countdown to political reunification. In this process RSCs - with their financial resources - are now viewed more positively by civic associations than they were a few years ago.

Complex Debates

There now seems to be a virtual consensus between the ANC and the NP that fundamental changes to local government institutions will only take place after the conclusion of national level negotiations. This implies therefore that only interim changes, rather than the creation of definitive new structures, will take place to a range of institutions, including RSCs.

The complexity of the political debate over institutional options and the equally complex interrelationship between national, regional and metropolitan or local authorities, would also seem to reinforce the assumption that major changes to the functioning of RSCs will not take place in the immediate future. RSCs are however rather uncomfortably poised between contending tiers of government. It is this dilemma which will inform much of the debate about the future role of Regional Services Councils. IPA

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ELECTRIFYING THE NATION

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A recent conference on electrification convened by the ANC highlighted the emerging politics of energy supply in South Africa. Electricity is one of the cheapest, safest and most commonly used energy sources. It is essential for development, yet two-thirds of the population of South Africa are not connected to the national power grid. A research specialist discusses the new politics of electricity and evaluates appropriate solutions to match supply capacity to development need.

The impact of domestic electricity goes beyond the everyday convenience of turning on a light, a stove or a colour television. Safe drinking water, telephone services, health care, and modern education all rely on a dependable electricity service.

South Africa has the necessary resources to meet development needs through providing most homes with electricity. A programme of electrification of all houses in South Africa spread over a twenty year period would cost about R820m per year. This estimate represents fractionally over one per cent of the annual budget (1991) of the central state.

Income derived from the sale of electricity can be further invested in the process of electrification. An electricity tax on existing consumers could be used to set up a national electrification fund similar to the petrol fund which would be used for investing in electricity in non-electrified areas.

At present, the electricity supply industry in South Africa is based on a national generation and transmission authority (Eskom) with a number of local authority reticulators. Eskom also supplies directly to individual large customers (normally outside municipal areas of jurisdiction) and to about 200 000 small users (mainly white farm supplies and a few local authorities). Its slogan for the 1990s is 'Electricity for All'.

Eskom is the fifteenth biggest electricity supply company in the world:

- It generates just over 60% of all electricity on the African continent and 95% of all electricity used in South Africa, of which 60% is supplied directly to end users and 40% indirectly to end users via distributors.
- It supplies electricity directly to 250 000 households out of an estimated 2,5m households with electricity in South Africa. Each year, approximately 100 000 new domestic customers are added to the system.
- It has 45 000 employees, with another estimated 80 000 people employed in the industry.
- It is a dominant organisation within the South African economy, contributing 5% to GDP.

Although Eskom presently has a surplus generating capacity to meet a 13% growth, an estimated 23m people or 2,6m households do not have access to electricity. In the homelands the situation is even worse, with less than 10% percent of the population having access to electricity. Future urbanisation and population growth over the next 20 years are expected to at least double the current demand for electricity.

Clearly, change is necessary because of the failure of the existing system to meet the basic energy demands of the majority of South Africans. The ongoing boycotts of service charges by black communities from the mid-1980s onwards have politicised the supply of municipal services and led to a fiscal crisis for local government. In debating future scenarios, it may be necessary to go beyond a simple extension of the existing system - a structural overhaul of the entire electricity supply industry is required.

Firstly, changing current regulations might, in turn, mean dismantling certain institutional, political and legal barriers. Secondly, it is imperative that new tariffs are negotiated because the current system mitigates against the disadvantaged sectors of the community. In short, we must take into account the existence of socio-economic needs alongside technical issues, thereby creating a framework of support for those households that cannot presently afford to join the grid.

Local Authority Role

Historically, the immense economic and political power wielded by whites in South Africa has resulted in a markedly skewed distribution of state services on a racially discriminatory basis. The electricity supply industry exhibits a characteristic duality. While the white urban and rural areas are well provided for and a rudimentary system of supply exists in the black townships, electricity services are almost totally absent in the black rural areas and shantytowns on our urban peripheries.

For the past forty years Eskom has effectively monopolised the electricity generation, transmission and supply industry in South Africa. However, Eskom is not alone on the supply side of the industry. Four hundred Municipal Electricity Undertakings and a number of Black Local Authorities (BLAs) supply most domestic households.

The prior right of a local authority to distribute electricity within its area of jurisdiction is spelt out in the Electricity Act No 41 of 1987. The municipalities purchase their electricity in bulk from Eskom and then redistribute it to their constituents. They are responsible for supplying 90% of all domestic electricity usage in South Africa. Of these 400 municipal suppliers, over half have less than 1 000 consumers. There are some very fundamental differences between the two forms of local government as supply authorities.

For many established white municipalities, a large proportion of the electricity supply network has already been paid for and therefore attracts little or no further capital charges. Most municipalities have evolved distribution techniques which are reliable, safe and cost-effective by integrating an electricity supply system with the provision of water supply, transport and roads, sewerage, cleansing, parks and recreation and a host of other services. Most importantly of all, they have created a network which is suited to the purpose of electricity supply to customers who utilise an average of about 700 kilowatt hours of electricity per month.

In sharp contrast, the quality of electricity supply by the newly established BLAs to the townships is a very different matter. Absolute chaos characterises their delivery network and administration system (in particular meter reading, billing and collection). Making the BLAs responsible for the distribution, supply and maintenance of the electricity system has created a serious civic crisis. Lacking a financial base, skills, personnel and credibility, the BLAs were incapable of efficiency.

Often, accounts are inaccurate because the meter reading function is not adequately performed by the BLAs and invoices are received over four months in arrears. Where accounts to residents are broken down in terms of electricity consumption and other services (water, sanitation, refuse collection etc.), on receiving payments the BLAs do not allocate these against the services for which they have been charged, but allocate according to their own budgetary needs. Electricity is often a low priority, thus payments may never reach the bulk supplier. A local white municipality may cut services if it is under the impression that the electricity charges have not been paid.

There are few instances were white municipalities are involved in the direct supply of electricity to black domestic users who fall beyond municipal boundaries. In fact, only one local authority has a licensed area of supply extending beyond its boundaries. The City of Durban electricity network encompasses some 48 other local authorities, trust land and self-governed areas. In September 1991, it launched a drive in black areas to electrify 160 000 homes over the next five years at a cost of R500m.

What is commendable about Durban's initiative is not merely the fact that a white local authority is sharing its expertise and administrative resources with underdeveloped black areas but the fact that this drive is financed by its own Capital Development Fund. In other words, one city, one tax base.

High Energy Debates

A National Meeting on Electrification was hosted by the African National Congress, on 6-7 February 1992, at the University of Cape Town.

Consensus on several major issues emerged at the conference:

- The process of electrification should begin now and not only once political solutions are found.
- Although a national approach to energy supply is required, this should not undermine local and regional initiatives.
- Electrification should not be addressed only as a technical issue; policymakers should be sensitive to social, political and gender needs.
- Electrification of homes should include all persons concerned, which means community involvement at all levels of implementation.

It was decided to initiate a National Electricity Forum, which would include the following organisations; Eskom, the government, the ANC, the DBSA, civic associations, local authorities, trade unions, municipal associations, NGO's and relevant business participants. The main aim of such a structure would be to discuss and seek solutions for the regional, non-racial distribution of electricity.

Skewed Tariffs

The effects of the current tariff system are skewed. The 'S-1' tariff was recently introduced to those households with ready-board systems (see box). Because no installation charge is levied to the individual household owner, the S-1 system allows for the capital costs of distribution and reticulation to be recouped within the tariff structure itself. Such a system would seem to present the best possible scenario whereby individual households can offset installation charges over a lengthy period. Furthermore, this cost is only paid on a usage basis - the more electricity consumed, the quicker the installation charge is paid back.

There are a number of problems with this approach, however. The government set a significant precedent when some decades back it committed itself to electrifying most white communities and many white farms. Capital investment costs were in these instances not borne by the newcomers but by all consumers on the national grid.

The method of bulk supply to the townships is another disastrous aspect of the system. In many instances, the BLA, rather than buy its electricity direct from Eskom, is forced to buy its electricity from a neighbouring white municipality. White municipalities logically make a profit on the bulk resale of electricity to the BLAs. The increased purchase price of electricity results in a higher tariff in black homes vis-a-vis white homes. Or in some instances, tariffs have been subsidised by the BLA, further straining their financial resource base and limiting their capacity to expand the network.

Preferential rates are being offered to the developed sector in the belief that they aid further industrial expansion. In September 1990, Eskom granted widely publicised 40% discounts to corporate customers which exported manufactured products. The underlying assumption is that by subsidising the electricity requirements of the industrial sector Eskom is helping to stimulate the economy. By implication, therefore, the electrification of black homes must do very little to spur growth in South Africa, for Eskom simultaneously levied a surcharge of almost 40% on newly electrified black homes - the S-1 tariff.

Recently, 'tariff-T' was introduced and made applicable to the major users of electricity who 'meet certain criteria'. Whereas domestic electricity prices will increase by only 9% in 1992, which in fairness is 50% less than the inflation rate, for many in the industrial sector the increase will only be 7%. A lower tariff will apply to those companies and organisations that use electricity during the off-peak period.

The concept of encouraging industry to utilise electricity at a constant rate throughout the day is a good one. The problem lies in the selective nature of the reduced tariff incentive. The exclusion of tariff-T to domestic users may create popular discontent. There is no rational reason why individual homes cannot be offered a similar incentive to utilise electricity during off-peak periods - certainly, Telkom offers this service to telephone users.

The most actively propagated solution to the problems of the electricity supply industry is the 'ready-board and pre-paid meter' system (see box). The advantages propagated by its proponents is that the ready-boards are cheap, reliable, easy to administer, labour saving and easy to understand - and they make a boycott of payments impossible.

The way in which the ready-board and pre-paid meter system has been promoted has caused problems, however. Firstly, they are being installed on a racial basis - only in black households. Secondly, they have often been used to replace existing meters at a cost to the subscriber. Thirdly, they have been used as a 'form' of punishment, as the cost of reconnection, in areas with a record of non-payments or boycotts. Finally, implementation is seemingly on an ad-hoc basis.

Although such a system does not address the problems of delivery, tariff, supply authority or many other issues, the concept is sound. In this instance it is the method of application and not the technology that is wrong, many of the past mistakes are being repeated.

Reform Programme

To eliminate the electricity backlog will require 420 000 connections per annum for the next decade and 220 000 connections per annum for the following decade in order to cater for the urban population growth. Such a task can only be undertaken if there is a major commitment from the state. A common feature internationally of successful electrification projects is that all were undertaken as the result of a conscious commitment by the government of the country to the task of electrification. (In South Africa the logo 'Electricity for All' has come from Eskom and not the state.)

Depending on how the electrification drive is implemented, there should be substantial external benefits and economic multiplier effects. Economic growth could be stimulated through the process of redistribution. Finally, investment in electrification can mean future cost-recovery and revenue for the national or regional treasuries.

The restructuring of the electricity supply industry needs to be addressed at two levels: the changing scenario at the regional level and changes at the national level including changing regulations:

- ***regional restructuring***

Discussions for changes have ranged from the suggestion of a complete takeover of all electricity supply undertakings by Eskom - through the creation of regional supply undertakings and/or the formation of community co-operatives - to privatisation in the form of Joint Venture Companies or outright private ownership of either Eskom or regional electricity supply industries. Very little time has been spent addressing the artificial divide between black and white municipalities.

It is unlikely that in a future South Africa municipalities will be structured along racial boundaries or that BLAs will continue to exist. The present fragmentation within metropolitan areas hinders planning, leads to misallocation and underutilisation of resources, raises costs and limits possibilities of cross-subsidisation between electricity consumers. Either a change in the local government structure is necessary or the uncoupling of electricity supply from local government must occur in order to implement a more rational approach.

A combination of both scenarios is probable. With the *political will* of white municipalities and *political credibility* of governing structures of the black areas, an amalgamation of the electricity supply

The Right Connections
THE PRE-PAID METER AND READY BOARD

By Paul Trompeter, Data Research Africa

Getting connected can be expensive. The formal connection of a domestic household to the national electricity grid costs over R1 000, and the wiring of a house upwards of R1 500. This entry fee is a substantial barrier to the 70% of South Africans living without electricity, primarily low-income families from rural, township or squatter areas.

The pre-paid meter and ready-board concepts were developed to promote mass electrification. They relax unrealistically high safety and quality standards while using a different method of payment to recover installation and running costs. Using these new technologies, Eskom is electrifying rural and semi-rural communities while the municipalities are extending their supply to township and shack settlements (see article).

The pre-paid meter installed in the kitchen is activated by inserting a card with a magnetic strip (very similar to a plastic credit card) which has a certain value of electricity encoded. It is installed with a simple distribution board or ready board which has three 15 Amp plug sockets for use by any electrical appliance.

The installation costs are borne by Eskom or the municipality with only a nominal fee levied to be hooked up to the grid. Eskom charges R30 while the Durban City Corporation charges R132 which includes a free two-plate stove to encourage electricity use.

The actual cost of the pre-paid meter and ready board units is R300 while installation costs about R2 000 and upwards depending on the density of housing and proximity to existing electricity supply. The shortfall is recovered via a surcharge on electricity consumption. This is not a problem providing the newly connected household utilises electricity for the heavy consumption tasks of cooking and heating of water.

Pros and Cons

The *pre-paid meter* resolves a budgeting and payment problem for both the consumer and the electricity supplier. The meter indicates via flashing lights when the remaining electricity is low, prompting the consumer to purchase another card. For the supplier, the tasks of billing and collection are eliminated, thus reducing administration costs, bad debts and reconnection. The pre-paid concept also helps reduce the consumer boycotts which have been a feature of township community life in some areas.

The *ready board* allows for easy distribution of electricity within the room it has been installed in but not to the rest of the house. Plug point outlets for other electrical appliances and wiring for house lights are still a problem and a cost barrier to further electricity usage. Extension leads are used in some instances but are not ideal, while professional installation is expensive. Surprisingly, local entrepreneurs have not yet capitalised on this opportunity to provide low-cost wiring.

Further, depending on the type of ready board system (it varies between electricity supplier), the house may only be able to access 20 amps. Thus cooking with a two-plate stove may mean no other appliances can be used at the same time without tripping the system. (The system can be easily upgraded by an electrician but obviously at a cost.)

Electricity is a cheap energy form but usage is not easily monitored compared to a log of wood or tin of paraffin. For the new electricity user, over-consumption can easily occur due, for instance, to leaving on a stove to provide heat. Although the pre-paid meter indicates by the rapidity of a flashing light the amount of electricity being used, the consumer has no measurable means of knowing the exact amount/cost of electricity used per task. In short, budgeting is a problem for the new electricity user.

Although most people want electricity, the problem is not one of having a market but rather of affordability. Some of the areas electrified at low cost through these new approaches are experiencing extremely low consumption by newly connected households. This trend will impact on the recovery of the high installation costs and bodes badly for future rapid low-cost electrification.

undertakings of black and white local municipalities would be logical. In situations where these ingredients are lacking, however, then electricity supply industry and local government must be separated from each other.

Where amalgamation occurs advantages would be numerous. They include:

- a sharing of existent expertise;
- surpluses realised on the trading accounts of white municipalities could be ploughed into local services to benefits all;
- through the pooling of capital costs it is easier to extend the existing networks in the white municipalities than to build new systems in black areas; and,
- tariff equalisation would eliminate perceptions of racial discrimination.

There are two major inhibiting factors. The first is constitutional, in that the law vests the right of electricity supply to BLAs. The second is economic, as many white municipalities are wary of the boycott strategy of non-payment of accounts in black communities.

Black civic associations and other organisations want to participate in discussions on a restructured system of electricity supply so as to ensure community control over the upgrading and development of projects in existing townships. They call for decision-making power over the micro-level design of electricity networks and control over the process whereby such networks are constructed. They want to be represented on the boards of regional electricity authorities in order to help set local agendas and on a National Electrification Board in order to participate in the process of setting macro-level policies.

Such calls should be heeded, for in the absence of democratically elected town councils and representative municipalities, community-based organisations are the only form of elected local leadership in most areas lacking electricity.

Nevertheless, it is important to heed the fact that electricity supply in most countries is carried out by highly rationalised, special purpose, semi-autonomous, publicly-owned organisations. Municipal electricity authorities are best suited for this purpose. They are in a position to serve a mix of domestic, commercial and industrial consumers which creates a more even load pattern than any one consumption sector. In conjunction, either loosely or in some formal partnership, municipalities with community organisations should be the vehicles to undertake electricity supply in the future.

☐ national restructuring

There are three basic options when addressing the issue of restructuring the electricity supply industry (Eskom) at a national level.

The first of these options, to maintain the status quo, can be rejected outright on the grounds that it does not address any of the pressures for change in contemporary South Africa.

The second option is nationalisation. Certainly, the nationalisation of the electricity supply industry may resolve the issues of skills and capital shortages but experience elsewhere has shown that any gains may be offset by bureaucratic inefficiency.

A derivative option may be to nationalise Eskom but split it up into regional entities independent of each other. There are strong merits to this approach, for although it shares both the advantages and disadvantages of nationalisation at a countrywide level, it does have a strong appeal in that it empowers local government to control their own regions. Moreover, it separates potentially efficient from potentially inefficient local governments.

Further, calls for community ownership of their own electricity supply undertaking are beginning to emerge. This is potentially problematic as it is very unlikely that the skills and/or the will to operate an 'own affairs' electricity undertaking exist. Perhaps more pertinent however, is the fact any mass benefits of scale are lost, as a result of which either high tariffs will have to be imposed or central state subsidies will become the norm. Neither present a healthy situation.

The third option deals with the issue of restructuring independently by making provision for the establishment of regulatory mechanisms (statutory or market). These mechanisms would aim at influencing the price and quality performance of distributors - national, regional or community - relative to their end users. Regulation would direct the optimum customer mix of distributors in order to secure the best average price for all end users by improving bulk load factors.

Regulation would also guide the authorities involved as to how and where future expansion and investment should occur. It should ensure that electricity network areas should not be determined by political borders but purely by viability and size (manageability) constraints. All vestiges of racially defined electricity networks must be replaced by demographic, social and economic considerations.

Finally, the regulatory authority would also have to examine all existing legislation governing the electrical industry. Over-regulation, on the one hand, involves import prohibitions through outright bans and/or tariffs which have not necessarily been in the best interests of consumers. Under-regulation, on the other hand, has led to a number of 'innovative wiring systems' being accepted as standard. Although new affordable safety standards need to be implemented, a free for all system could develop which would compromise basic safety standards.

Marriage of Objectives

Currently, more than one-third of Eskom's total expenditures are repayments on foreign debt - of South Africa's total foreign debt of US$20 bn, Eskom has the highest single share at US$3bn. While Eskom has borrowed on foreign markets at exorbitant interests rates, it has simultaneously invested over R4bn in the stock market and other financial markets. It thereby generated R835m in interest receipts in 1990, more than net earnings that year.

The point here is that the business of the National Electricity Supply Commission should be electricity generation, transmission and supply. Any restructuring within Eskom should be undertaken with the clear objective of meeting the ultimate needs of a restructured electricity supply industry.

It is important that economic and market forces should guide the pricing of electricity in South Africa. Electricity need not necessarily be a profit-making undertaking but it should be financially self-generating. Too low a tariff can bankrupt the electricity supply authority, thus creating another inefficient state-run enterprise. Public borrowing for power generation accounts for 20-40% of Third-World debt, and emphasises the failure to reconcile the need for economically and socially acceptable domestic tariffs.

Development needs must enjoy an equal priority. For many South African households in the lower socio-economic strata, access to domestic electricity remains financially out of bounds. Where necessary, electricity usage will have to be subsidised by the public and private sectors. However, the guiding mechanism should be the inability of the consumer, because of socio-economic factors, to pay the minimum tariff levied and not the inability of the electricity supply authority to function profitably. In other words, state subsidies should directly benefit end-users and not the supply authority.

A major electrification drive will have beneficial effects on the rest of the economy through creating an enormous demand for a variety of products and services. The policy of 'growth through redistribution' envisages generating rapid growth in the economy by making large investments in social and infrastructural resources, such as electricity supply. At the end of the day, political and economic policy choices will be the driving force determining the rate and nature of electrification in South Africa. IPSA

VOCATIONAL EDUCATION FOR JOB CREATION

Monica Bot, EduSource, Johannesburg

In January 1992, the Kagiso Trust hosted a two-day seminar on human resources development in Johannesburg to look at the vocationalisation of the school curriculum and post-secondary vocational and work-based training. Our educational correspondent reports on the papers presented by the international speakers, all associated with the World Bank, who focused on experiences in Latin America, Singapore, Germany, Kenya and Zimbabwe.

The state of skills development among the workforce, general interest in vocational education and training, and employer-based training is at a fairly low level of development in South Africa. Some observers have advocated that vocational education and training should become part of the school curriculum, especially because many children will not receive tertiary education or training in the formal sector.

Schools either offer optional vocational subjects in a unitary school system or stream pupils into academic or vocational secondary schools in a dual system

The options discussed during the recent Kagiso seminar centred on the diversification of the school system and the provision of vocational training after school. It is apparent that careful consideration will have to be given to the practical and financial implications of implementing new vocational programmes. Another important issue will be the likely role of the different stakeholders (state, industry and labour).

The possible approaches to vocational education in schools range from offering optional vocational subjects in a *unitary* school system to a strict *dual* system, whereby pupils are streamed into academic *or* vocational secondary schools. America offers an example of the unitary system, where both academic and vocational subjects are offered in the same secondary school. Countries such as Germany, Singapore and Japan, on the other hand, have different types of secondary schools based on the dual model of separating academic and vocational education.

Although a unitary school system may appear to be more equitable, several problems were raised by the speakers at the Kagiso workshop which would indicate that this need not in fact be the case.

There is the difficulty of maintaining a balance between vocational and academic subjects in unitary secondary schools. The delay in introducing the vocational/ academic divide seems to contribute to a lack of interest in vocational training. The prestige of academic subjects and a powerful prejudice against the more technical subjects militate against pupils taking occupational courses taught in school. Further, while many pupils are not destined for university, in the unitary system they attend school alongside future academic graduates, which may contribute to feelings of inadequacy.

In dual systems, on the other hand, the difficult moment for pupils occurs at the end of basic education but not thereafter. As a consequence of such problems, the American unitary system has started to change, and serious trade training is now being given in community colleges. Zimbabwe has had a similar problem of negative attitudes to vocational education in schools, although there is increasing interest in vocational training after secondary school.

The education received by pupils not going on to tertiary education is often of a lesser quality in unitary systems than that offered in a dual system. As one speaker put it: 'In so-called "equitable" systems, the poor get less than in "less equitable" systems; they make a big promise but the delivery is modest'. One probable cause is that education systems are slow to respond to change, whereas vocational content has to be very responsive to market requirements.

Vocational Costs

It is very costly to provide vocational education and training on an extensive scale, whether in the unitary or dual systems. The cost factor is especially salient for Africa, where most education systems have rapidly expanded during the past decade or so and are still grappling with the issue of raising quality.

In Kenya, for example, the government decided to introduce vocational subjects at secondary schools, but neither the state nor the community were in a position to provide the necessary facilities or suitably trained teachers. This forced a policy change, and the intention now is to provide only minimal vocational education in school. Technical training will be provided at the post-school stage.

In Zimbabwe, the experience has been fairly similar. The post-independence policy that pupils had to take at least two vocational or technical subjects in school was abandoned because of the lack of equipment and teachers, and a subsequent 2,5% pass rate in vocational subjects. Vocational education has now been taken out of secondary schools into the post-secondary level.

More generally, speakers at the workshop pointed out that developing countries have little chance of professionalising the whole system; they cannot achieve both equity and efficiency, certainly not in a situation where 80% of an education budget is spent on salaries, leaving little for any vocationalisation on a substantial scale.

On balance, it seems that incorporating vocational subjects in schools is problematic. The chance of success are improved in either a diversified or 'dual' school system or, if there is a unitary school system, by providing technical and vocational training in post-school institutions. In South Africa, the presentation of vocational education and training in schools, whether in a unitary or a dual system, would certainly meet with most of the constraints mentioned here: the lack of finance and suitably trained teachers, and a relatively low level of interest among pupils in these subjects.

Unfortunately, as one speaker said, 'any system works well when there is high economic growth'; until South Africa achieves this, it will have limited room to experiment. If nothing else, experiences in other African countries show that incorrect policy decisions could result in wasting valuable resources and time, with goals still remaining out of reach. South Africa will need to weigh the needs of individuals and the economy as well as the constraints very carefully in order to arrive at an efficient and acceptable training system.

The Stakeholders

In countries with a dual school system, industry tends to be very closely involved with vocational/technical schools. In Brazil, for example, the whole vocational school and internship system is owned by industry and paid for by a 1% levy.

In Brazil, the positive aspects of such a relationship were reported to include intense feedback from industry and an education system which is more responsive to the market. On the negative side, however, the system has become bureaucratic because there is a guaranteed budget. Also, because training is demand-driven, an economic downturn limits the number of places available for internship. Another problem is that particular industries show some resentment to paying for training in other sectors.

In Japan, on the other hand, which also has a dual system of academic and technical schools, there is a tradition of lifetime employment of skilled workers, and industrial investment in training therefore pays off 100%. Although small firms contribute very little to training efforts, the bigger firms spend about 20% of their payroll on training.

The speakers from both Kenya and Zimbabwe hardly mentioned the role or responsibilities of industry in training, let alone that of organised labour; decision-making, coordination and provision seem to be largely the government's preserve.

In Kenya, industry is required to contribute to a training levy grant system and participates in vocational training programmes by sponsoring employees. The actual involvement of industry was mentioned only in respect of making proposals to the country's three industrial and vocational training centres. Communities, on the other hand, have been expected to play a substantial role in the establishment and management of schools and training institutions.

The scenario in Zimbabwe and Kenya contrasted with the emphasis other speakers (and the audience) placed on the importance of involving employers and the labour movement in the training system:

- In Singapore, the national training board relies heavily on participation by employers and labour at both policy and training levels.
- In Venezuela's decentralised system, each of 21 states has an association of workers, employers and local directors of training institutions, to deal with the human resource needs of the area.
- In Germany, vocational training is the responsibility of the chambers of trades, industry, commerce and agriculture.

In countries with a dual school system, industry tends to be very closely involved with vocational/technical schooling

Although education systems are slow to respond to change, vocational content of schooling has to be very responsive to market requirements

A purely demand-driven training system will place considerable constraints on skills development, especially during an economic downturn

The public sector will have to take greater responsibility for training to avoid skills shortages when the economy picks up after recession

Unions agree to apprentice salaries, and look after the fulfilment of contracts, working and training conditions, etc. The role of the central government is mainly to guarantee legal rights and duties of vocational training, while regional governments develop curricula and provide technical teachers.

Some Main Themes

Speakers at the seminar stressed that one cannot transplant a training system from one country to another as this often tends to magnify a system's shortcomings. Experiences of other countries are nevertheless useful if only to inform debate. In the context of the limitations of comparative experience, two themes emerged which are likely to dominate discussions on training by the stakeholders in South Africa.

❑ ***demand- vs supply-driven training***

From an efficiency viewpoint, a strong case can be made for demand-driven training, especially in developing countries with a relatively small formal economy. A case in point is Zimbabwe, where the supply of vocational education did not respond to manpower needs, resulting in a certain measure of 'overkill'. It was therefore decided to look at what industry wants, to rationalise vocational education and to improve the comparability and transferability of training.

In perhaps an extreme case, Chile has privatised its training system and training is 'sold' to jobseekers. The aim is to reduce the mismatch between unemployment and the labour market. While the system has not only survived but prospered, and no unwanted training takes place, the cost has been that it provides only for those who can pay: higher efficiency at the cost of equity.

An obvious drawback of a purely demand-driven training system is that it will place considerable constraints on skills development, especially during an economic downturn. As one speaker pointed out, a country's training system must plan for economic growth; one cannot plan for a recession. Rather, it is important to get the training system right during a recession. In other words, a demand-driven training system could very easily place constraints on economic expansion, as has been South Africa's experience in the past.

It is not clear what the implications are of a demand-driven policy both for the provision of training to the existing workforce and for productivity increases. If industry is made primarily responsible for training, for instance, the public sector would have to take greater responsibility for certain aspects of training in order to avoid skills shortages when the economy picks up after recession.

Finally, some participants objected to a demand-driven approach on the grounds that it relegates the labour market to a reactive role. Rather, policies adopted by the labour market will have implications for the economy as well as for training policy.

❑ ***training and economic growth***

Much of the discussion at the seminar focused on the closely related issue of the role of vocational education in job creation. While it was pointed out that training does not create jobs, it nevertheless can lead to employment opportunities outside the formal sector.

In Columbia, the informal sector was targeted for training as it was the only growing sector. Mobile units have been provided which focus on simple trades and on community development. As training by itself is not sufficient, attention was also given to funding and technical assistance. In addition, municipalities were targeted and mayors drawn in as developers or entrepreneurs.

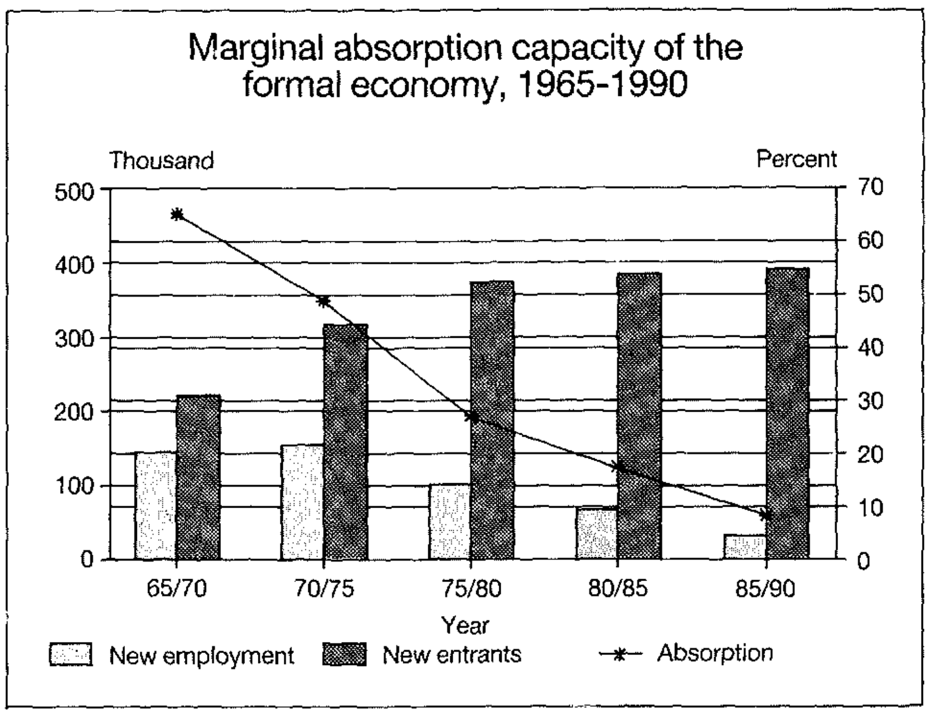
Such an approach is certainly of interest for South Africa and other countries which have a sizeable informal sector. It was mentioned, however, that Zimbabwe has not made much progress in this area; problems include the lack of capital for tools, poor business ethics, and bylaws which place constraints on informal sector activity. These problems emphasise the importance of an integrated approach, and of complementing training by providing incentives to small businesses and entrepreneurs, a good transport network and accessibility to markets.

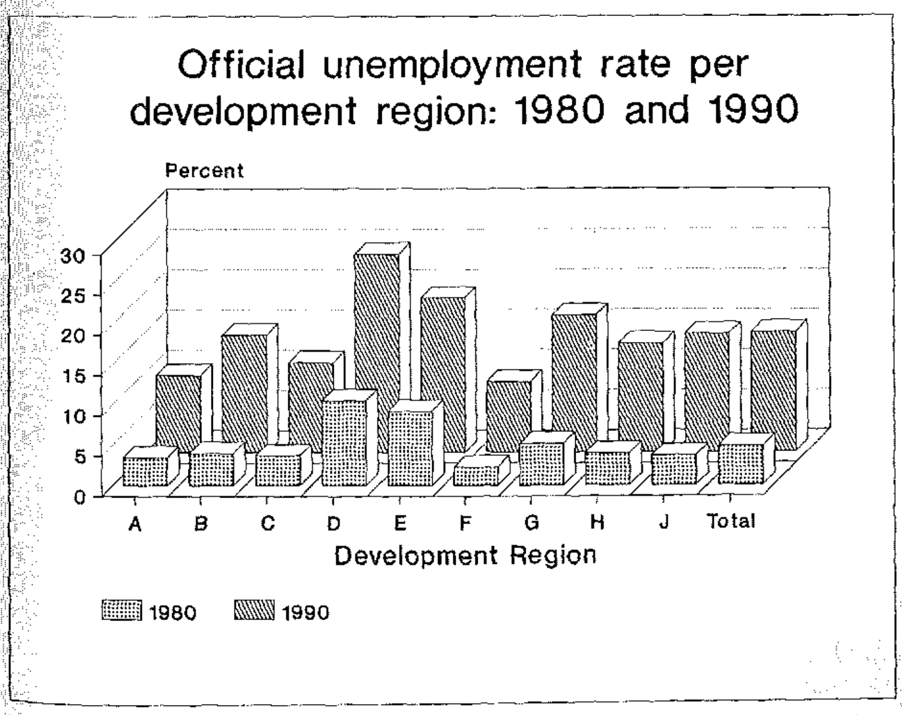
Finally, whatever system of vocational education and training evolves in South Africa, the importance of involving all stakeholders cannot be overemphasised. While a national manpower plan is necessary to allow for a holistic and co-ordinated approach to vocational education and training, its development and implementation must involve the private sector and organised labour from the start. IPIA

Note
The views expressed are those of the author and do not necessarily reflect those of EduSource.

INDUSTRIAL MONITOR

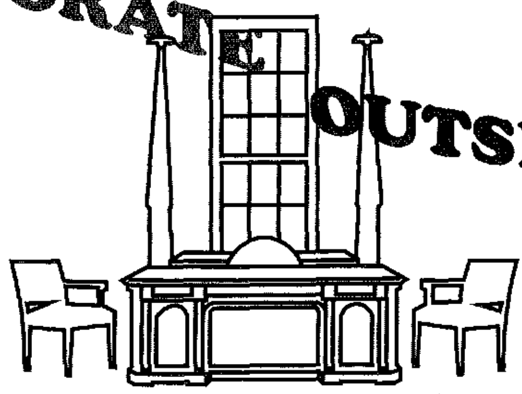
DATA TRENDS ON EMPLOYMENT





Source: Information Clearing House, Centre for Information Analysis, Development Bank of Southern Africa, 1991

CORPORATE OUTSIDERS



COMING ON BOARD

Don Mkhwanazi, Management Consultant

A prominent advisor to the ANC and Black Management Forum argues that the process of political transformation in South Africa can never be complete without simultaneous democratisation of the economy. The state of black representation on corporate boards of directors reflects the immense economic imbalances created by apartheid. The lack of executive black participation in the economy also reflects on the power that a white elite possesses and continues to exert over economic direction of the South African economy.

'For all practical purposes blacks were not allowed to own land. They were prevented from acquiring rights and until hardly more than a decade ago, they were even prohibited from owning shares. They are outsiders'.
Thabo Mbeki of the ANC

The increasing complexity of the business environment in South Africa is placing new demands on corporate leadership. The greater freedom for ordinary working people to question authority places a high premium on leadership ability, skill and practice. The volatile transitional environment forces us to consider whether boards of directors, as currently constituted, are equipped to steer the corporate ship into untested waters. It is our view that credible and legitimate black leaders are well poised to make a meaningful and significant contribution.

Abroad, the advent of Japan as a world economic leader, the poor performance of western economies, both in Europe and North America, the competitiveness of international markets, and the evolution of the global village has necessitated a critical introspection of the role of corporate board members. Takeovers, mergers and the rise of institutional investors have placed the duties, responsibilities and role of board directors under microscopic scrutiny.

Who's Who on Board?

It is against this background that we should critically review board composition in South Africa. Let us start with a few pertinent questions:

- what is the ratio between black and white directors, male and female?
- what is the proportion of executive to non-executive directors? (In the USA, non-executive directors form the majority.)
- from which professions are the majority of non-executive directors drawn? (In South Africa most are chartered accountants and/or have a financial background rather than human relations.)
- are non-executive directors drawn from the ranks of chief executive officers as in other countries, e.g. the USA?
- what is the age profile of South African directors? (Most board members are more than 50 years of age.)
- are English-speaking directors in the majority?

A preliminary analysis of available data for the top 100 companies listed on the Johannesburg Stock Exchange shows that of approximately 2 550 directorships, only about 40 or less than 2% are occupied by blacks. At the same time, the top 15 directors hold 19 directorships each, and there are 35 directors who hold 10 or more seats on corporate boards. There can be no doubt, therefore, that corporate South Africa is largely controlled by a handful of powerful individuals.

To cite another example, less than 30 members of the Anglo-American Board of Directors control over 225 directorships in other companies. In America, the active CEO's of *Fortune's* top 1 000 companies would each have to serve on a maximum of six boards to meet the demand. In the past, they could have joined more than six boards, but the increasing complexity of both CEO's and directors' roles has made such heavy commitment impossible. In South Africa, this is apparently not the case.

A perusal of the directors' list in South Africa will confirm that the same names appear and that it is dominated by white males. Whilst it is true that highly qualified and distinguished individuals of calibre serve on South African boards, it is doubtful that they could apply themselves as effectively as they might wish or as often as their boardroom seats demand. It is my belief that these directors are over-committed and over-stretched. They simply do not have enough time to do justice to the complex task at hand.

Allow me to quote two non-executive directors to emphasise my point. First, take the case of a retired CEO who serves on only two boards, besides his own: 'There are two reasons why I said "Yes" to these two boards but have said "No" to all the rest. One, you have so little time that you really cannot take on more than two appointments if you want to do the job properly. Two, these particular ones are convenient to my office and my schedule'.

Second, take the case of an active and distinguished lawyer who agrees: 'It is a considerable distraction ... to be an effective director certainly takes close to 20 days a year in terms of travel, telephone, meetings and preparation. This is definitely a deterrent. A famous judge once said that no active person could possibly serve on more than two boards at any one time and still make a positive contribution'.

Directors who serve on many boards can never have the knowledge or the expertise in company matters required to do justice to the complex affairs of so many large and diversified enterprises. It is my belief that the limits of time are real for even the most capable and energetic individuals and often constrain a director's ability to govern.

The Old Boys Club

How are directors selected in South Africa? Executive directors rise through the ranks and find their way onto the Board of Directors. Most executive directors are board members of subsidiary companies, not the holding company. However, in South Africa, just like in the UK and USA, there is a predominance of non-executive directors, who in the main are CEO's and/or senior executive directors of leading corporations.

Myles Mace in his study of US directors, *Myth and Reality* (1971) described board membership as 'more of an accolade than an obligation', calling directors 'Ornaments on a Corporate Christmas Tree'. Directors were usually chosen from corporation executives, both retired and active, from more indirectly related sources such as lawyers, bankers, and from successful friends and acquaintances of the CEO - a sort of 'Old Boys Club'.

While the majority of directors might come from outside the company, it looks like the Old Boys Club network is still at play. An analysis of major South African companies will show that the majority of board members studied at the country's top private schools. A degree from a liberal white university seems to be a prerequisite too, although the strides made by Afrikaans speaking directors have forced the inclusion of Afrikaans universities.

In some corporations, you will not reach the Board unless you are an Oxford graduate or a Rhodes Scholar, with few exceptions. This selection emphasis creates a strong collegiate ethos in the top ranks. The question is: can a black who studied at an ordinary township school and has a 'bush' university degree make it onto the Board?

The selection of directors in South Africa, like in the USA and UK is controlled in the main by the Chief Executive with the approval of the Board. In South Africa, however, the high concentration of economic power, with interlocking directorships, exacerbates the problem of a limited pool of directors. The conglomerates that dominate the South African economy are controlled en-bloc by a small number of individual owners, directors and managers who have been accorded vast privileges under apartheid.

Both competitive and collusive behaviour exists between conglomerates, influenced respectively by the extent of cross-holdings

A preliminary analysis of the top 100 companies listed on the JSE shows that of some 2 550 directorships, only about 40 or less than 2% are occupied by blacks

Can a black from an ordinary township school with a 'bush' university degree make it onto the Board with its strong collegiate ethos?

In South Africa, the corridors of corporate power are rigidly controlled, 'no-go zones' for outsiders such as blacks and women

between them. Corporate interlocks can take several forms, the most common of which are cross-holdings and interlocking management at board of director level. The CEO plays a critical and dominant role in South Africa. The control of the Board and therefore of corporations appears to be still determined by large controlling blocks of shares.

There is no doubt that corporate boards wield enormous power and influence. Major economic decisions rest with few individuals who in the main are white males. In South Africa, the corridors of corporate power are rigidly controlled, 'no-go zones' for outsiders such as blacks and women. If you are not an insider, the chances of making it into the closely-knit circle are very slim indeed.

Falling Overboard?

It is opportune to examine the question of black and women under-representation on boards of directors. Let us begin with blacks who form the majority of workers and consumers in this country. Obviously a number of reasons are advanced for black under-representation on boards. The checklist should sound familiar:

- there are not enough equally qualified blacks;
- there are not enough experienced blacks;
- too few blacks have expertise in such areas as banking, finance, law, technology, international business or corporate management.

The problems and obstacles to black management advancement are directly responsible for the lack of black directors

Most of the arguments are hollow and self-serving once we go beyond the rhetoric and look for substance. It is hard to believe that there is such a dire shortage of professionals (whether white or black), that current board members need individually shoulder as many as 20 directorships.

In all of South Africa, is there really a pool of no more than 40 qualified blacks who can be tapped for positions on corporate boards? Or is the system simply closed to outsiders? Admittedly, in recent months we have seen a dramatic increase from 30 to 40 black non-executives, drawing in people like Marina Maponya, Oscar Dhlomo, Enos Mabuza, Perfect Malimela, Professor Ngubane, Linda Zama, etc. But there can never be enough black executive directors until we have a critical mass of top, senior and middle black managers.

The problems and obstacles to black management advancement are directly responsible for the lack of black directors. We will continue to have a serious shortage of black non-executive directors as long as we do not have success stories in black business, especially in the mainstream of the economy. But when some blacks do manage to struggle to rise above mass mediocrity, they are shunted into jobs that seldom afford them the opportunity for gaining meaningful work experiences that could lead to leadership positions.

Corporate leaders maintain they are making every effort to seek and promote black executives and personnel. Their explanations are highly unsatisfactory. It is not enough to say that qualified and experienced blacks are not available when they are not putting to good use what they already have. It is an unbelievable fact that there are no more than 11 black executive directors in South Africa today.

What we have seen so far are senior black managers who leave corporate South Africa in frustration, establishing themselves as consultants or/and entrepreneurs, who are now dominating non-executive directorships. One wonders why their former companies failed to identify them as directors. In some instances, former employers are paying the former black employees a fortune as consultants to their companies. It is ironic that once they leave companies they all of a sudden become very good Board material.

The country is still governed by whites only. As business is an extension of the wider environment, it has no serious motivation to act differently. In fact, corporate South Africa is five steps behind President de Klerk. Political transformation and democratisation of the workplace will create a better environment for black advancement (see box). In the interim, the workplace itself must be transformed to reflect a new non-racial democratic South Africa.

Broadening the Net

What are the profiles of the black non-executive directors in South Africa who dominate corporate boards at present? (These few individuals already have more than five directorships, thus overburdening them, just like their white counterparts.) Most of these black non-executive directors are management consultants, top officials of black business organisations and/or highly successful black businessmen, in their own right.

Very recently, black academics, lawyers and retired politicians such as Dr Dhlomo and Enos Mabuza, have been appointed to the Board. These are outstanding individuals who will contribute positively to corporate South Africa, especially in the socio-economic and political discourse. To the boardroom they bring breadth of vision, wisdom and a wealth of experience.

Individuals who have occupied leadership roles in government, education, medicine, foundations, business organisations, provide a pool of relevant talent for board membership. This country has produced 43 black chartered accountants, but no more than three of them serve as non-executive directors. Why is this the case, when in fact white chartered accountants dominate South African corporate boards?

We have been told that for any director to be effective, he or she must have sound ability to read, understand and interpret financial statements; even more importantly, be able to think strategically and laterally; and, he/she must be aware of the operating environment, especially of the political economy.

White directors may qualify under the first and second requirements, but they fall flat on the political economy. They seem to excel and are heavily biased towards mastering the complexity of economics. But they are one-sided and lack finesse in political economy. Macro-economic success would depend a great deal on political economy and how we master, understand, influence and shape it. On this requirement, black chartered accountants, lawyers and academics are at a vantage point compared to their white non-executive colleagues.

In short, many able, respected and capable blacks remain outside the corporate net. It is also critically important to emphasise that blacks appointed to boards should have legitimacy and credibility in the eyes of the black community. Their bona fides should be beyond reproach. Black directors should be drawn from visible and acceptable constituencies. They should command the respect of our communities, and not be 'Uncle Toms' or blacks who are whiter than whites.

Already, there exists a pool of talented and capable blacks, in ABASA, BMF, NAFCOC, FABCOS, NADEL, BIA, SACC and other social and economic formations within the black community. I can think of a list of 100 black persons and 100 women, without much agony, who would do well as non-executive directors. People who can do corporate South Africa proud. I can also think of a list of 100 black executives currently employed in corporate South Africa who could become very effective board members today.

Black Advancement
A Checklist of Shortcomings

- Our CEOs do not show sufficient and necessary commitment to black advancement.
- Manpower development and career planning are done on an adhoc manner in which black advancement suffers.
- Human Resource departments have no significant clout to drive black advancement.
- There is no immutable budget dedicated to black advancement.
- Black advancement is not integrated into the development of company philosophy and strategy.
- There is no reward or sanction (monitoring) of progress on black advancement within companies.
- Training and development programmes are devised without sufficient inputs from black persons and organisations.
- There is an attempt to turn blacks into whites in terms of a value system, i.e. corporate culture is based on white values and norms.
- Black advancement is introduced into a harsh and rejecting environment. It can only succeed if the total workplace environment is transformed and 'advanced'.

Opportunity Knocks

Political transformation and democratisation of the workplace will create a better environment for black advancement

Women suffer from the same fate as blacks in this country when it comes to representation on the Board of Directors. Although women represent a significant sector of the workforce, only a tiny minority have reached positions of influence and power in corporate South Africa. Most women are generally clustered in positions that do not make full use of their abilities. Generally, they are in badly paid, low status jobs, and their opportunities for training and promotion are severely restricted.

The number of women making it to senior positions in our boardrooms is painfully slow and totally insignificant given the role and representation of women in corporate South Africa. This is not only a South African problem but a world-wide phenomenon of overt discriminatory practice on the basis of gender.

In the UK for example, at present 28 boardroom seats in the biggest quoted companies are occupied by women. But multiple directorships mean the number of

Black, female and worker representation on the Board in terms of a co-determination philosophy would be an essential element of nation-building

Only those companies which seek to transform their firms to reflect a more representative view of the national interest, will maximise shareholder wealth

women in positions of power is 18, of whom most are part-time non-executive directors. This in fact represents less than two per cent of the 1 333 directors of companies listed in the *Financial Times* Stock Exchange (FTSE) index of 100 top firms. In South Africa, a worse picture would probably emerge.

The British Equal Opportunities Programme, called 'Opportunity 2000', recognises the need to achieve a balance of women and men in the workforce at all levels by the end of the decade. Companies such as Kingfisher - encompassing Woolworths, Legal and General, ICI, Sainsbury, British Airways, The Midland, National Westminster, and Co-Op Banks, The BBC, Post Office, Reed International, and Lucas Engineering - have set individual targets in what is possibly the boldest equal opportunities initiative ever undertaken by corporate Britain. Some believe that stronger measures, even positive discrimination is needed in South Africa.

How do we accelerate the process of black and women representation on South Africa's corporate boards? First of all, fundamental change must take place in corporate South Africa. It must be transformed and democratised. There must be a fundamental shift in attitudes, behaviour and value systems in order to create an environment responsive to the needs and abilities of black and women employees.

Black men and women in the fastlane should be identified immediately for training and development that is specifically aimed at preparing them for board directorships. For instance, they might enrol in the programme run by the highly regarded International Institute of Management Development in Lausane, Switzerland, which is making a marked contribution in the development of directors for multi-nationals. It has put paid to the notion that it takes a long time to groom executive directors.

What about the UK Institute of Directors Programme in London, which grooms up-and-coming potential directors? Can we not send blacks and women who meet the criteria to these programmes or can we not emulate them here?

Challenge of 1990s

Collaboration is critical between all stakeholders, if the composition of corporate boards is to be broadened to meet the challenges of the 1990s and beyond. The Black Management Forum takes this task very seriously and in co-operation with NAFCOC and the Institute of Directors of South Africa is engaged in exploratory talks to formulate a national strategy on the promotion of black directors.

Selection of directors is another area which must be revisited. So too is worker representation on the Board of Directors in terms of a co-determination philosophy which would be an essential element of nation-building and socio-economic reconstruction.

Company shareholders are another key stakeholder. Unlike their American counterparts, South African directors are not used to being legally sued by shareholders for losses suffered either in the form of dividends or declining share prices, and/or due to mergers and takeovers.

The accountability of directors is an issue that needs to be revisited. Directors might think twice before accepting board appointments, if they were to be sued and made legally accountable in our courts as a norm rather than an exception. In other words, shareholder passivity, except with some major institutional investors has serious implications for board selection, director accountability and director effectiveness.

To conclude, companies which are serious about their long-term prosperity will take the courageous step of expediting black integration into their corporate boards. The words of Peter Drucker will ring true, 'If you see a successful company, you must know that courageous decisions have been made'. Only those companies which seek to transform their firms to reflect a broader and more representative view of the national interest, will maximise shareholder wealth and survive.

At the end of the day, if any individual wants to be a corporate director, she or he will have to work for it and earn it. Black people, especially black managers who aspire to corporate boards, must follow the example of our musicians, boxers and athletes, who have reached the top, through courage, dedication, confidence and perseverance. They have overcome tremendous social, political, financial and material obstacles. They are men and women of high achievement and mettle, some of whom have reached the top on bare feet and empty stomachs. IPSA

WINDOWS ON THE WORLD

Special Economic Zones

Chris Proctor, Executive Director, Regional Development Advisory Committee, Region E

This article argues in favour of establishing special economic zones in South Africa. It deals with the origins and form of these zones in terms of their socio-economic contribution to their host countries, and suggests why they are appropriate for South African conditions. The author goes on to outline a possible zone format for South Africa.

A Special Economic Zone is a geographic area to which special policies are applied to promote export manufacture. There are almost as many names for such zones as there are countries promoting them since each presents its zones as being unique and especially appropriate to the industrialist's needs. Special Economic Zones (SEZ), Export Processing Zones (EPZ), free ports and Free Trade Zones all have one common denominator - they are typically established in countries overburdened with the economic constrictions that result from protection policies and fiscal cramp, countries which for one reason or another wish to enter world trade.

A Special Economic Zone normally emerges where there is a desperate need for economic growth - in countries with high population growth rates and relatively poor or sluggish manufacturing sectors. Sometimes the host country has exhausted its potential growth from import replacement and inward industrialisation policies, or else the growth potential of these policies is insufficient to meet growth needs.

The origins of trade zones are ancient. They existed during the Greek and Roman empire periods. Hamburg, Gibraltar and Rotterdam are early European examples. During the 19th century Britain established additional free ports in Singapore (1819) and Hong Kong (1842) to facilitate its global trading requirements.

It is only in the last 30 years, however, that the modern zone in its many forms has emerged. The Irish zone at Shannon airport which was established in 1964, Kao-hsiung in Taiwan (1965) and the first Mexican *maquiladora* (1965) have provided models for adoption or adaptation throughout the world.

By 1984 the Starnberg Institute was able to list 79 significant zones in 35 countries. According to Richard Bolin (director of the World Export Processing Zones Association), there are today about 200 zones in about 40 developing countries. He maintains that only about 20 of these are outstanding successes and a further 30 are doing 'reasonably well'. Significantly, zones have even been established in mainland China (1982), where a further 14 SEZ are planned in addition to the four that exist in Russia (1991) and in Poland.

Professor Colin McCarthy provides a more detailed definition of a SEZ: 'a geographical delineated, enclosed and policed industrial estate where manufacturers can establish themselves to produce export goods, free from any restrictions on the importation of required inputs, and with the benefit of a range of incentives designed to attract investment'.

The combined RDACs Export Promotion Committee decided to use the term Special Economic Zone rather than the more common Export Processing Zones because the latter has come to be regarded in South Africa as little more than a customs-privileged facility. Far more is intended. Over the years the dictates of market competition, together with the complexities within national economies and within the global economy have forced the emergence of the kind of SEZ which offer far more than did the first zone at Shannon airport.

Bolin calls SEZ 'windows on the world of global manufacture'. Windows should be designed to accommodate both the view and the architecture. Perhaps we should allow the definition of an SEZ to emerge in terms of their architects' objectives which, generally speaking, are economic growth, skills transfer, job creation, foreign exchange, foreign investment, foreign markets, backward and forward linkages, and technology transfer.

Countries appear to opt for SEZ once they have decided that their future economic growth should be export-led, i.e. when they wish to enter the global market place. Significantly, this wish occurred in Mexico, Malaysia, Taiwan, South Korea and the Philippines, among others, just when their population growth rates appeared uncontrollable. These countries recognised that the only solution to their demographic doom was economic growth at a high enough rate, which, together with redistributive policies would impact on general standards of living.

In most of these countries the population is now far more affluent and the population growth rate is low. As Paul Johnson (*History of the Modern World*, 1983:718) puts it, 'the population explosion was not an explosion at all but a concave curve linked to economic development: it could be contained by growth policies'. This meant seeking economic growth rates which are much higher than population growth rates and higher than could be generated by local demand. This could only be done through manufacturing and exporting on a grand scale. These countries could not rely on their overprotected domestic industries to generate the necessary growth quickly enough. Lean and hungry internationals had to be enticed in to 'kickstart' the export drive. Export zones were the instruments to do this.

Offshore investment into corporate value added processes is a particularly valuable kind of foreign funding, directed as it is to the risk side of the market. It is a valuable enough end in many instances for countries to pay taxpayer's money to get it. In fact even Japan has announced the establishment of six SEZ which will aim at production for the domestic market and not for export; the sole purpose of the zones is the encouragement of foreign investment.

Tables one to three based on GATT estimates give some idea of the size of world merchandise trade and the importance of the manufacturing export sector. In 1986 total world merchandise exports amounted to US$ 2 120bn of which manufactured products accounted for a staggering 67%, at US$ 1 430bn. (In 1985 South Africa's total domestic production of manufactured products amounted to about US$ 13bn). The developing countries share of total world trade was US$ 415bn (20%), while their share of manufactured exports was US$ 175bn (12%).

Table 1: Value of world merchandise exports (US$ Billion)

			% change over previous year	
	1985	1986	1985	1986
Agriculture	267	298	- 4,5	11,5
Fuels	359	272	-5	-24,5
Mining (excl Fuels)	70	73	-5	4
Manufacture	1 190	1 430	4,5	20
Other	39	47		
Total	**1 925**	**2 120**		

Table 2: Distribution of world merchandise exports (US$ Billion)

	1985	1986	% change
Developed countries	1 275	1 475	15,5
Developing countries	440	415	-6,0
(Excluding fuels)	(240)	(275)	(14,5)
Eastern Trading Area	210	230	9,5
Total	**1 925**	**2 120**	**10,0**

Table 3: Value of Developing Countries' merchandise exports (US$ Billion)

	1980	1986
Manufacture	110	175
Fuels	335	140
Agriculture and mining	110	100
Total	**555**	**415**

Bolin quotes the Starnberg Institute on job opportunities created by zones in 1975, 1986 and 1990 to be 581 000, 1 380 000 and 1 920 000 respectively. He also estimates that about two indirect jobs are created in the host country outside the zone for every job inside the zone. Zones therefore have contributed about 6m jobs in the 40 or so developing countries where they exist.

Many firms locate in zones because of the specific advantages to be found there. Accordingly, zones may be assumed to provide, for the host country, job opportunities which by and large they would not otherwise create.

The amazing growth in the number of jobs created in zones, 330% over 15 years, is spectacular. In some zones, however, the growth in employment has levelled off. Mauritius is a case in point (Evert van Dijk, *Report on SEZ for RDACs*, 1992:26). Its Export Processing Zones Act was passed in 1970 and for the next seven years growth was impressive. Between 1977 and 1983, however, the zone was plagued with the negative effects of oil prices, world economic conditions, strikes and political unrest. By 1983, one-third of the existing firms had closed down.

Then, in 1984, the Mauritius Export Development and Investment Authority (MEDIA) was formed and a dynamic new marketing approach, coupled with industry and exporter support measures was introduced. By 1987, the number of certified zone firms in Mauritius had increased by nearly 500% over the 1977 figure and they employed nearly 20% of the economically active population. This amazing trend continued between 1986 and 1990 when the number employed by certified firms in Mauritius increased by a further 50%.

It had become clear by the mid-1980s, twenty years after the birth of Shannon Zone and Kao-hsiung, that one of the keys to the success of a SEZ was the provision of an integrated marketing and management support system by the zone management to the zone industrialists.

Backward & Forward Linkages

One of the allegations levelled against the SEZ is that it supposedly provides an opportunity for big businesses to exploit labour, derive large tax-free profits and lock up their advanced technology. Sri Lanka is given as an example. Girls between the ages of 12 and 18 were employed in the clothing industry, paid pitiful wages and supposedly kept virtual prisoners within the zone. Sri Lanka, however, had almost no industrial support base; the only immediately available backward linkage was cheap labour with nimble fingers; textiles provided 76% of employment and 60% of net exports in 1983 (van Dijk, 1992:16).

Experience shows that the zones need to attract a variety of manufacturing sectors in order to optimise linkages. Bolin gives a clear warning to countries who do not follow a deliberate marketing policy of diversification output. If conditions are suitable, the (relatively easy to enter) garment industry will provide spectacular early growth but this is normally followed by a period of stagnation. Mauritius and Sri Lanka are cases in point.

Zones with higher technology employment provide better examples for South Africa than does Sri Lanka. For instance, 58% of Masan (Korea) exports in 1978 were electronic goods. In Mactan and Baguio (both Philippines), 80% of the workforce was engaged in electronics manufacture (van Dijk, 1992:14-16). Bolin states that Mexico's *maquiladora* industries depend about 15% on garments, with most of the remaining 85% being electronics and automotive products: 'From the very beginning Mexico attracted more electronics firms than garment firms.'

The backward linkages other than direct labour that may be expected in higher-tech zones are general industrial support services, financial and legal services and supply of raw and intermediate products. Subcontracting by non-zone domestic firms has also become a feature of some zones. In Korea, 131 domestic firms were subcontracting to Masan zone firms in 1983. Taiwan provides even more impressive figures: in 1988, zone firms bought US$ 340,5m from local non-zone firms compared with US$ 22,6m in 1972. Today, linkages in Korea and Taiwan are as high as 40-50% (Bolin).

The literature on zones does not cover forward linkages to any extent. Conjecture, however, suggests that they would be more difficult to achieve in countries with a low industrial base. More advanced countries would be more likely to benefit. Zone firms are normally required to export 100% of their output. Domestic firms would therefore be subject to the normal import duties, tariffs and restrictions other than foreign exchange in respect of purchases from zone firms.

In most instances, zone firms would have to compete with domestic local content programmes or other import replacement mechanisms. However, the trend with nearly all successful zones has been for the zone to become increasingly integrated with the domestic economy. Integration normally starts with limited entry of finished products. The most valuable forward linkages will, however, be found through the sale of technology and know-how as well as through the mobility of higher-trained zone workers.

Zone firms are generally permitted a 10% or 20% foreign labour component. Normally this facilitates the transfer of outside skills to zone workers since the foreign workers invariably bring in superior knowledge and skills. Zone firms often provide intensive and advanced training. Between 1966 and 1979, for instance, a total of 4 125 Taiwanese workers were trained overseas. As a result, the quality of the Taiwanese products increased markedly in those years (van Dijk, 1992:22). International research shows that the skills levels in zones today are generally higher than in the zone periphery; consequently, higher wages are paid inside the zones than outside.

Foreign Exchange

Development is expensive and every developing country needs as much foreign exchange as it can lay its hands on. The need for development, when driven by population growth rates, is inexorable but the rate of development may be severely limited by the level of balance of payments reserves. It will therefore be instructive to look at the foreign exchange dimensions of some zones:

- Shenzhen (China): Up to 1983, US$ 1,7bn in investment agreements were signed.
- *Maquiladora* (Mexico): Gross value of exports in 1989 was US$ 12,495bn.
- Taiwan's three zones: Total exports in 1988 amounted to US$ 3,766bn.

Total exports of all EPZ were between US$23 and 26bn in 1989 (Bolin) while the World Bank estimated exports per zone worker of certain countries in 1989 as follows:

Sri Lanka	US$ 5 500
Mexico	US$ 29 000
Taiwan	US$ 50 500
Korea	US$ 67 800
Baguio (Philippines)	US$ 72 000

The opening up of foreign markets is an important benefit derived from SEZ. Typically, zone firms bring or create their own markets. In addition, the building of overseas trading confidence in the performance in respect of reliability and quality of output of zone firms should spin off on domestic firms.

Constant investment into research and development is the prime requisite for obtaining and maintaining a competitive edge in the international market. The intention, very clearly, is to build up the technology 'reserves' of the country as a whole through the linkages referred to above and through sub-contracts involving deliberate technology transfers. Singapore provides a good example of the incentives that can be applied to encourage research and development (van Dijk, 1992:15).

South Africa SEZ

In general terms, South Africa's economic problems can be summed up as follows. It has a very high population growth rate; it is undergoing rapid urbanisation; it has appalling unemployment statistics; its formal sector can absorb only about 7% of job seekers annually; it has high inflation; high interest rates; high taxation; high levels of demand for government social spending; it is going through a period of transition; and it has a negative economic growth rate.

This is a formula for disaster. The key to solving these enormous problems is high economic growth coupled to redistributive policies. The growth potential of some economic sectors, particularly agriculture and mining, is limited. South Africa will have to rely on international tourism and export manufacture. Continued import substitution and inward policies will not be enough.

South Africa has to opt for an overall ambitious export policy within which SEZ are regarded only as instruments to assist in achieving policy objectives. National economic growth directly attributable to the zones may never be substantial except in terms of local and regional economies where they may be significant. At best, job opportunities offered by zones are not likely to exceed 10% of all manufacturing sector jobs. However, important

Features of Special Economic Zones (SEZ)

What features and functions considered important to industrialists should be covered by the South African SEZ?

- adequate supply of appropriate skills; work permits for foreign skilled workers (between 10% and 20% of workforce depending on availability of local skills);
- reduction and assistance on red-tape; one-stop shop;
- good security, one of the most important location factors;
- good access to the host city's residential areas, CBD, harbour, airport and industrial service areas;
- appropriate, publicised schooling for foreign workers;
- sophisticated financial and legal services;
- industrial and engineering services (technical support);
- raw materials and intermediate goods;
- a 5 to 20 years tax holiday for corporate income to encourage local re-investment;
- minimised transportation costs;
- minimised harbour costs and effective handling facilities;
- relaxation of foreign exchange controls;
- sophisticated, reliable communication systems well linked into the international networks;
- marketing support systems;
- efficient zone infrastructure to minimise manufacturing, labour and transportation costs.

foreign investment is likely to be attracted since many industries who locate in zones are zone specific. In 1988 over US$ 625m was invested in Taiwanese zones of which US$ 69m was from domestic sources.

Some valuable backward linkages may be expected while the transfer of technology and skills are particularly needed in South Africa. However, foreign exchange may in the end be the most important direct contribution from the SEZ. With total annual world exports from all zones probably nearing R100bn, any slice would be to South Africa's advantage.

The potential of each SEZ will depend on the comparative advantages of each location and the vigour and degree of innovative marketing and management of each zone authority. The management should be drawn from the private sector - zones exist in a highly competitive marketing world - but several other players in each location must be represented too, namely, the port authority, the local authority, the business sector and the labour unions. In Spain, both regional and government are also present. A fundamental requirement of a successful zone is that the zone management should understand what is required of the zone and of them by industrialists.

What then would industrialists want from a SEZ located in South Africa? Worldwide, the fundamental barrier to entry for industrialists is the risk attached to manufacture. The need to explore ever increasing scales in search of the optimum economy; the complexities of the global market place and uncertainties in the international political economy have forced industrialists to look for havens that aim to minimise risk. The rate of growth of economic activity in these zones and the fact that zones now comprise nearly 15% of total manufactured exports from developing countries demonstrate the attractiveness of zones to some manufacturers.

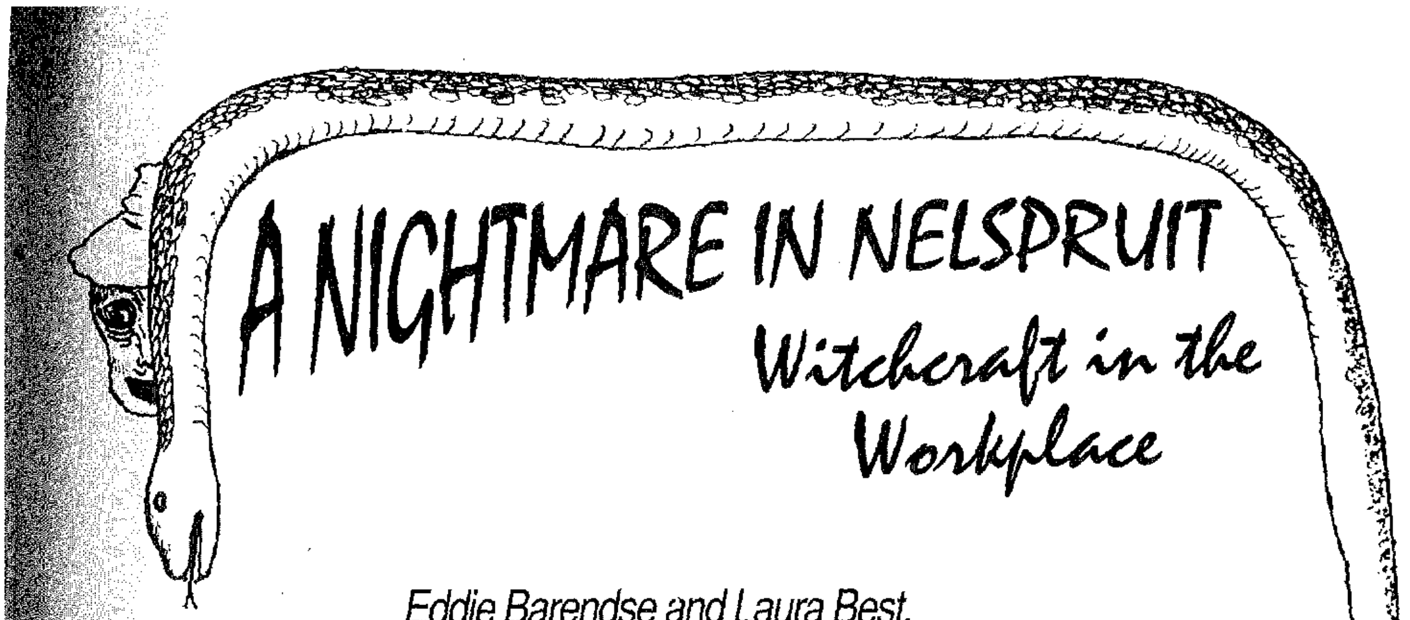
Many SEZ have been established in countries which had uncertain futures at the time. Zones have even been established in communist countries. A common characteristic of zones is the commitment given by the host government not to nationalise industries.

What must the South African government do? It will have to pass enabling legislation and provide customs officials to police the zones. After that it will be the responsibility of local entrepreneurs, local authorities, port authorities and perhaps even regional authorities to establish the zones at their own cost. The enabling legislation should cover the responsibilities of the government and of the zone operator. The legislation should also provide for minimum relaxation from legislation and regulations, including:

- exemption from customs and excise duties;
- exemption from taxation (either temporary or partial or both);
- relaxation of foreign exchange control regulations (particularly in respect of repatriation of profits and investment related to foreign firms);
- exclusion (or partial exclusion) from the Rand Monetary Area;
- waiver of visa, permanent resident and work permit laws; and,
- further deregulatory measures which may well be added after the zones have been established.

These provisions will not be sufficient to ensure the success of SEZ in South Africa. Success will follow appropriate marketing and, above all, by providing industrialists with advice and risk reducing support before and after establishment. South Africa can learn from the Mexican *maquiladora*. Here the zone managers employ production engineers to offer technical advice rather than make sales pitches to prospective industrialists. After establishment in the zone a 'Shelter Plan' is offered which includes facilities like temporary factory space, supervised employees,,maintenance service, one stop shop in respect of local regulations, accounting and control services, legal services, training, and representations with foreign governments.

Special Economic Zones cannot be regarded as a panacea to South Africa's economic problems. They cannot be South Africa's entire economic, industrial or export policies. SEZ, in fact are simply instruments; they can exist within any policy. Their direct contributions, whilst important in themselves are comparatively limited. The main value of zones lie in the catalytic effect they will have on the South African industrial environment. After years of isolation and introspection, South Africa desperately needs a statement of determination to succeed on a global scale. Special Economic Zones would make just such a statement. IPSA



A NIGHTMARE IN NELSPRUIT
Witchcraft in the Workplace

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A firsthand report on an extraordinary clash between traditional beliefs and modern industrial relations which led to a labour dispute over witchcraft at a national retail chain. It forms part of an ongoing Indicator SA series which probes the darker undercurrents of South African society. Contributors to our last two editions investigated the struggle over witchcraft between elders and comrades in rural Venda (Minnaar et al) and muti murder in the social turmoil of urban Natal (Evans).

One of the more unusual work stoppages to occur in South Africa last year took place under rather mysterious circumstances at the Nelspruit branch of a national retail chain. The store's black workforce, following a visit to a *sangoma* (diviner), refused to continue working with seven of their co-workers accused of being *abathakathi* (witches) by the sangoma. They also refused to work with four black employees who had refused to accompany the other workers to the sangoma.

In response to the work stoppage, the store management suspended the 11 victimised employees on full pay in an attempt to diffuse the situation - to keep the store functioning while allowing management the opportunity to obtain 'objective scientific' data and to consider their options. They requested the HSRC's Division for Social Development to investigate and report on these strange events ...

In subsequent interviews, the workers said they had decided to consult a sangoma because of the high incidence of unnatural deaths among black female workers and the other misfortunes that had occurred since the opening of the store in 1982. The deaths were regarded as unnatural because a death had occurred at approximately the same time every year (April-June) since 1984. Also, the causes were seen to be mysterious (for example, a minor illness had led to unexpected death). These events had led to speculation that the deaths may in some way be linked.

The workers stated that other misfortunes and illnesses had also befallen employees of the Nelspruit store. Misfortunes outside the workplace generally related to sexual and/or marital problems which were perceived to be caused by a *thikoloshe* (demon). Many female employees allegedly menstruated for lengthy periods of time (one to three months continuously) and an unusually high number of miscarriages were reported. Problems experienced at work included burning eyes, headaches, drowsiness and itching feet (especially female staff).

Incidents of witchcraft were given momentum by an employee who dreamt of a huge snake in the Nelspruit store

It turned out that the allegations of witchcraft and the need to consult a sangoma had been debated fairly frequently among the black staff from 1988 onwards. One of the workers apparently resigned from the company after informing management via the grievance procedure that another worker was trying to bewitch him. According to some respondents the worker resigned because he feared for his life. Another worker visited a medical doctor after fainting at work in 1990. After the doctor found nothing wrong with him, the worker visited an *inyanga* (witchdoctor) who cured his problem but also intimated that he may be a victim of witchcraft.

These incidents were given momentum by another employee who had apparently dreamt of a huge snake in the Nelspruit store. A move was initiated to collect R25 from each worker so that a sangoma could be hired to cleanse and protect the store. Although a substantial amount of money was collected, the workers stated that nothing came of this endeavour. (Other respondents stated that they had no knowledge of this attempt to collect money.) An assistant store manager stated that a sangoma had visited the store at the end of 1990 but that he had not allowed the sangoma to execute this task.

Seven workers thought to be witches were identified during a late night session with the sangoma of Komatipoort

Workers also stated that they were aware of workers at other companies in Nelspruit who had also consulted a sangoma in an attempt to solve problems at the workplace. It would seem that these incidents together may have precipitated the move to collect more money and to formalise the procedure whereby a sangoma would be consulted by the black staff of the store.

The Sangoma's Ceremony

Before the proposed visit to the sangoma, the workers called a meeting of all the black staff. A sign on the canteen wall stated that those who refused to take part should consider themselves fired. A worker committee - comprising eleven members, five of whom were shop stewards - was appointed to organise the various aspects of the proposed visit (collecting R43 from each worker, arranging transport, etc.). The worker committee also informed management, relevant tribal authorities, and the police about the intended visit to the sangoma.

The workers (171 of the 184 black and coloured staff) left the store in Nelspruit in three buses on a Saturday after work for their meeting with the sangoma. At nearby Komatipoort in the eastern Transvaal, the workers inquired of local residents where they could find a reputable sangoma nearby.

On finding a sangoma, the workers were divided into five groups (apparently in terms of store departments). Each group was taken into a separate room and questioned by the sangoma's assistants. The next day, on a Sunday morning, all the workers were made to sit in rows. The seven workers thought to be witches had apparently been identified during the sessions of the previous night. The sangoma and his assistants then told the accused why they were accused of witchcraft.

At the end of the ceremony the sangoma brought forward a letter/book so that people could sign, indicating their satisfaction and their agreement with the way the event had proceeded. He also stated that the accused should not be injured or killed. The accused returned together with the other workers to their various townships near Nelspruit.

According to members of the worker committee, as well as other workers, it was agreed beforehand that anyone identified as a 'witch' by the sangoma would not return to work the next day. On Monday, however, all the accused arrived for work. The worker committee called a meeting to discuss the presence of the accused. The accused were not prepared to resign.

The worker committee then indicated to management that the staff could not work while the seven accused were still employed by the company. Later the worker committee informed management that four of the 13 black workers who did not accompany the others to the sangoma were *impimpi* (traitors/informants) and that they could also not work with them.

According to the worker committee some of the other workers who did not attend the meeting with the sangoma had urgent prior arrangements, but showed their sympathy and unity by donating the required amount of money. Others were 'coloureds' staying in Nelsville and were thus not required to attend the consultation. However, the four accused impimpi declined to visit the sangoma or contribute money, stating that they were Christians and did not believe in witchcraft. Moreover, the sangoma had apparently intimated that one of the four was also a witch.

Outcasts & Charades

The main observations and findings of the HSRC research team were the following:

The seven accused of witchcraft did not support the sangoma's pronouncement. They felt that the visit was a charade, that the sangoma had been contacted prior to the actual visit, and informed of who should be accused. It was also rumoured that a photograph of one of the accused was taken to the sangoma beforehand. Most of them believed that a second and/or third sangoma should be consulted to verify the first sangoma's pronouncement. None of them doubted that witches can and do exist. They all wanted to return to work, and recognised the need to clear their names.

The four workers who declined to attend the ceremony based their refusal on their Christian beliefs. They were not prepared to consult other sangoma, and stated that they would rather lose their jobs.

The worker committee believed that there was consensus among all workers regarding the planning of the event, the actual proceedings, and the outcome. All workers had to participate because the misfortunes that had happened since 1984 were of concern to all. They stated that their visit to the sangoma was not pre-planned and that they had no previous knowledge of him. They accepted his identification of 'witches', but were willing to consult another sangoma if required. The seven accused could not be allowed to resume employment and the four impimpi had to be transferred to other stores.

To the researchers, there did not appear to be conclusive consensus among all the workers regarding the event, the sangoma's pronouncement or the solution to the suspension of the eleven workers. On a humanitarian level, most respondents would not have liked to see any of the workers lose their jobs. However, in terms of group solidarity at the store, they believed that working with the eleven employees in future could create tension and possible conflict on the shop floor.

The way in which the event was organised indicated compulsion to attend the ceremony (it would not have been 'successful' otherwise). All those interviewed confirmed that there was a notice in the canteen stating that people who did not attend the ceremony should consider themselves fired. A number of workers also claimed that the exits from the shopping centre were staffed by members of the worker committee when the store closed on the Saturday of the outing to the sangoma, to ensure that workers participated in the visit.

Except in one instance, all the accused seemed to occupy privileged positions at the store in terms of access to certain retail goods and additional unofficial benefits. Two of the accused were female workers who controlled access to two goods storerooms, while three of the five male accused were employed in the butchery. They alleged that some of the other workers were jealous of their positions; some of them also stated that they had in the past been accused of being 'management informers'. Another of the accused was a supervisor who, according to the sangoma, was using various *muti* (magical potions) to make management 'shiver and shake' when he spoke to them.

There were indications that some members of the worker committee may have played a leading role in organising the event. The shopfloor interviews left us with the impression that the majority of the workforce would have accepted the verdict of these leaders.

IR Implications

At the same time, there was a general feeling among respondents that management's level of concern with workers' problems was inadequate. They perceived that the management style at the retail chain did not allow sufficient worker participation.

At a localised level, most shop stewards, members of the worker committee, as well as individual workers did not perceive the chain of events as reflecting a clash between 'traditional' black beliefs and industrial relations practices. They felt that the role of the shop steward had to be subordinate to that of the sangoma's pronouncement. Shop stewards indicated that they would be unable to represent any of the outcast workers.

At a general level, however, workers discerned a conflict of interest between IR practices and 'African schools of thought'. They argued that the incorporation of their values and beliefs into IR procedures and employment conditions should be negotiated at a national level by the trade unions.

None of the workers doubted that wiches can and do exist

A supervisor was accused of using muti (magical potions) to make management 'shiver and shake' when he spoke to them

The workers felt that the issues were so mysterious that they could not be dealt with in terms of formal industrial relations

It was not clear whether the union had been informed of the witchcraft events - whether the incident had been defined as an internal issue, or whether the workforce (via the workers committee) feared their case would be rejected by their union. The regional organiser of the SA Commercial, Catering and Allied Workers Union (SACCAWU) stated that he was aware of the incident at the Nelspruit store, but that his hands were tied, since he had to abide by the decision of the majority. He did, however, realise that the event could lead to industrial conflict and declared himself available to mediate between the various parties.

Initially, neither management nor the workforce perceived the deaths as an IR issue per se. The workforce did, however, perceive the regularity of the deaths as reason for concern, whereas management did not. Management felt that it was unnecessary to pursue the issue further, whereas the workers felt that the issue was of such a mysterious nature that it could not be accommodated within the formal IR framework.

There had been ongoing, but inefficient, communication between management and workers prior to the workers' visit to the sangoma. However, due to their differing levels of concern about the events, the parties developed different expectations. The workers believed that because they had communicated their intention to visit the sangoma to management, they could rely on management's continued involvement. On the other hand, management believed that if they condoned the proposed visit, the workers would understand that that was as far as management could or would get involved in the issue.

The workers demanded the summary dismissal of their seven collegues accused of witchcraft and the transfer of the four impimpi

When the accused refused to resign from the company the workers embarked on a strike. They demanded the summary dismissal of the seven accused of witchcraft and the transfer of the four impimpi. At this stage, management became part of, and had to respond to what had evolved into an IR crisis.

Management could not accede to the majority demand for dismissal of the accused workers since this would have constituted an unfair labour practice. The shop stewards did take cognisance of this, but were not dissuaded from withdrawing their demand. In the same vein, they were not prepared to act as representatives for the accused under any circumstances.

At this stage, the main options open to management appeared to be:

- to reinstate the affected workers;
- to dismiss the affected workers;
- to transfer the affected workers to other stores; and/or,
- to allow or persuade the workers to consult other sangoma (either to have all the workers cleared or to convince those identified as 'witches' by more than one sangoma to resign from the company).

In the longer term, appropriate strategies for management might be to grant some form of formal recognition to *inyangas* (traditional healers), by for example, allowing formal sick leave or revising medical aid conditions to cover consultations with an inyanga; and to initiate an investigation into related ergonomics, health and safety issues.

Cross-Cultural Communication

One of the primary functions in applied research of this nature should be for the researchers to facilitate the establishment of communication and mediation/negotiation processes.

In presenting the issues to the management and workers of the store, the HSRC research team tried to emphasise the complexity of the social relations underlying the witchcraft event. We attempted to make management aware of the contingent character of culture, by stressing that cultural practices (in this case witchcraft practices) should be removed from an abstract level and placed on the level of personal relations 'on the ground'. In other words, witchcraft accusations must be understood in terms of the context in which they are made.

We also made the important point that no procedural blueprint exists for resolving such cases within the current IR framework. The role of formal IR practices are limited in such situations. Our final proposal was that the resolution of problems of this nature should be couched in the tradition established in South African labour relations, namely, to use mediation and/or negotiation to arrive at fair and reasonable solutions. IPIA

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