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# A POLICY AGENDA FOR POST-APARTHEID SOUTH AFRICA

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## Introduction

This is a short note setting out elements of a policy-agenda for a post-apartheid South Africa. It is tentative and sketchy, and designed to stimulate discussion. Although economic prospects seem reasonably optimistic, these are contingent upon a political settlement facilitating the implementation of the designated strategy. We have assumed that this political settlement is one involving a mixed economy, one which does not lead to a flight of white skills and one in which the 'atmosphere' encourages investment (by whatever mode of ownership) for a long-term future.

Since future policy is predicated upon the trajectory of past and present accumulation, this brief note includes a discussion of the present crisis, an identification of the opportunities for future growth and distinguishes between short-term, medium-term and long-term problems. Only after this is done, is it possible to begin to map-out a feasible policy-agenda, beginning with a specification of a possible 'strategic theme' to post-apartheid strategy, that of Growth through Redistribution.

In this strategy the need to target export markets will be given much attention - especially with higher value-added products. This may appear to be undesirable since South Africa has an urgent need for production to meet domestic and basic needs. However, we have argued that the South African economy is caught with a degree of import intensity which places limits on an exclusively-focussed inward oriented strategy. Moreover, much technological-learning occurs through export experience and some (appropriate) products and technologies may lead to expanded trade with other developing (or regional) economies. Finally, the shift to higher value-added export products arises from the need to expand market opportunities and to escape price pressure from countries with even lower wages. Hence some measure of export orientation should be seen as a complement, rather than as a substitute to meeting domestic needs.

## The Current Crisis

South Africa's high post-war economic growth was sustained until the 1970s. In fact, the decade of the 1960s was particularly 'successful', both in

relation to past performance and in relation to the international context. After the early 1970s, growth performance began to tail-off, and despite the 'boom' of the early 1980s, performance over the past decade has been particularly poor. An 'equilibrium rate of growth' - that is, one which is sustainable without balance of payments problems - is probably in the order of 1 - 2% pa, equivalent to a fall in real per capita incomes.<sup>1</sup>

A number of factors explain this poor economic performance. The one which emerges most clearly from comparative experience is the relative failure of the manufacturing sector. This takes two forms. First, unlike other competitor economies, South African manufacturing growth was not reflected in significant manufactured exports. And, second, manufacturing growth was highly uneven, with a 'modern' sector producing a combination of wage goods and luxury import substitutes (such as BMWs) coexisting with a large mass of the population being both unemployed and poverty-stricken.<sup>2</sup>

At the same time, the political conditions for apartheid accumulation failed to work effectively. Not only did resistance lead to a high-cost militarized and bureaucratized state, but the resulting political uncertainty was associated with a transition of capital from productive to speculative investments and perhaps more importantly, a fall in the real rate of investment.<sup>3</sup> Conflict on the shop-floor meant that capital was increasingly unable to draw on the creative skills of its labour force, so that capital productivity fell. The political struggle was also associated with sanctions so that imports (especially of oil) cost more, some technology was withheld and exports (especially of coal, manufactures and horticulture) were held back.

Seemingly in almost complete ignorance of the sources of success of Japan, Italy, Scandinavia and the Asian NICs, both capital and the state now see the solution to this crisis in terms of the neo-liberal agenda - privatisation (although we know that this is primarily driven by political considerations), deregulation and (most recently) attempts to lower real wages. Their vision of post-apartheid South Africa is inherently anachronistic. It seems to be modelled on a growth-model which has run out of steam in other parts of world and suggests a bleak future for a post-transition economy.

Thus, past experience of apartheid can be characterised as an attempt to promote *growth through greed*. By this we mean that inequality has deliberately been seen as the carrot for capitalist accumulation, a grand experiment to implement the Reagan/Thatcher/Laffer supply-sided growth model. It is clear that the recent failure of the South African economy can in large part be explained by the very choice of this growth model. While this might have worked in earlier generations it has been singularly unable to deliver the goods in recent times.

## Opportunities For The Future: A Strategy Of Growth Through Redistribution

It is precisely because of the recent failure of the South African economy that the growth opportunities arise. More specifically, the relatively poor performance of South Africa's manufacturing sector suggests that it is here that significant prospects arise. There are two major areas in which progress can be achieved, both within the manufacturing sector. These are

### *(a) An Expansion Of Manufactured Exports.*

Hitherto South Africa's manufacturing exports have been predicated upon the basis of low production costs. Not only does this fly in the face of the modern determinants of competitiveness (which are on the basis of product characteristics and value added), but there are many countries which have even lower production costs. Moreover, the reliance on price competition has meant that foreign importers have easily succumbed to pressure on sanctions. South African exporters, meanwhile, have generally failed to invest in value-added exports, partly because of their short time-horizons (due to political instability) and partly because of the politics of production relations on the shop-floor.

Post-apartheid South Africa will hopefully be able to reverse this short-termism, the strategic emphasis on price-competition and the inability to restructure production relations appropriately (see below). But it will do so in an international context in which trade sanctions will have been removed and in which there might even be a positive preference for South African products. A political solution will also almost certainly provide this preferential access to markets through the US GSP (Guaranteed System of Preferences) and the EEC ACP Lome Convention. Moreover, the very poor past performance of the manufacturing sector means that market penetration in foreign markets is low and that there will be some space before protectionist barriers become stifling. An indication of these prospects can be seen by the recent success of manufacturing exporters in the BLS states, many of whom have located there in order to take opportunities of the sorts of market access which will be open to South Africa's exporters in the future.

It may seem crazy for a post-apartheid state to target the export sector in the face of the economy's present problems in meeting domestic needs. However, it is an inescapable conclusion of the earlier discussion on the 'equilibrium rate of growth' that because of the indirect import intensity of South Africa's manufacturing sector, domestic needs can only be met through an easing of the foreign exchange gap. In addition, 'learning through exporting' has been the experience of all the successful NICs.

*(b) Expansion of the Micro-Enterprise Sector<sup>4</sup>*

There is evidence that the micro-enterprise sector is largely confined to services and (especially) to distribution. Those manufacturing enterprises which were found not only appeared to be operating at a high rate of profit, but also with very poor quality. Not only is the absence of this manufacturing sector most surprising by comparison with almost all LDCs, but it appears to have occurred in the face of an expansion of residential construction. (In other parts of the world - first and third - housing and domestic goods have been a major source of demand for the micro-enterprise sector).

Currently we have only a poor understanding of why this sector is so underdeveloped in South Africa. But its very non-existence suggests substantial opportunities in the future. Given a political settlement, this sector may thus become significant and since it tends to use very labour-intensive technologies, this suggests considerable scope for employment expansion. This is especially relevant in the housing sector (see below). Moreover, characteristically, the micro-enterprise sector also produces cheaper wage-goods, hence increasing real incomes. And, finally, the expansion of employment also involves the creation of demand, and this suggests scope for a series of localised Keynesian multipliers.

These opportunities are unlikely to meet the scale of the employment problem, especially in the short-run. However it would be both irresponsible and foolhardy to neglect them, particularly if this neglect were merely to be founded on a reaction to the current state agenda of reducing real wages through deregulation.

### **Problems For Policy**

We merely list here - rather than discussing in detail - the problem areas which are likely to arise for a post-apartheid South Africa, distinguishing between the short-, medium- and long-term. (By short-term we mean 3-5 years, and 5-10 years for the medium-term). The purpose of these lists is that they inform the later discussion of strategic-theme and the identification of a suitable policy-agenda.

*(a) The Short-Term*

Political transition is likely to be associated with the following short-term problems

- uncertainty and short-term investment horizons
- emigration of skills
- capital flight and/or an 'investment strike'
- poverty, mass unemployment and high expectations

- some measure of political instability<sup>5</sup>
- state-budget constraints<sup>6</sup>

*(b) The Medium-Term*

The following medium-term problems seems likely to emerge

- inflation<sup>7</sup>
- balance of payments problems
- widespread poverty and high unemployment
- skill shortages, at all levels
- intensifying international competition and a limiting of market-access, especially to low value-added products

*(c) The Long-Term*

A number of long-term problems can be identified

- sustained fall in commodity prices due to the 'dematerialisation' of production<sup>8</sup>
- balance of payments problems
- skill shortages especially at the artisanal and technical levels<sup>9</sup>
- poverty and unemployment
- environmental degradation

## **A Strategic Theme**

An effective incoming government clearly requires the identification of a strategic theme as an umbrella for its various policy initiatives. Three elements of this strategy can be spelt-out. The first concerns the underlying growth-model which provides for internal consistency between different policies, and one which charts out a viable mode of accumulation. The growth-model which we suggest is one of Growth through Redistribution. There are a number of reasons why this is suggested: it turns on its head the early-1970s 'reformist' strategy of 'redistribution with growth' in which it was argued that capital should be persuaded to facilitate redistribution because it could be associated with an increase in real incomes for all; it reassures capital that a post-apartheid state places growth centrally on its agenda; it reassures the masses that a post-apartheid state places redistribution centrally on its agenda; it distinguishes apartheid accumulation (which depended upon inequity and which was increasingly unable to ensure growth) with post-apartheid accumulation in which growth can occur only if prior redistribution takes place.

The redistribution required to facilitate the chosen growth path will be expressed at a number of levels, such as

- ownership of land; utilities; services; mining; manufacturing
- power relations on the shop floor (more egalitarian relations of power are now commonly recognised as being essential for modern competitiveness)
- education
- health

There are a variety of mechanisms for redistributing both ownership and control. For example, ownership may involve the state, very small-scale capital, medium-scale capital, large-scale capital, employee ownership and cooperatives. Current discussion on the mixed economy and redistribution focus almost entirely on state vs private ownership. But there remain critically important issues concerning the nature of ownership and control within these two categories of 'private' and 'state'.

Associated with this strategy of Growth through Redistribution is a second element, namely the *commitment to a mixed economy*. There is a lot of very hot air on this issue (is this a cause of the greenhouse effect?), but the central points are absolutely clear - both market-failure (most recently in the UK) and state-failure (as in the East European road to socialism) are endemic.

The third major element of strategy is a *commitment to planning as a process*. Briefly, by this we mean that unless some form of coordinated and purposive interventions on the market are implemented, growth (especially that involving dynamic comparative advantage) is unlikely to occur. The experience of the successful NICs is that there is no unique path to this dynamic comparative advantage, and that there are a variety of alternative paths available for specialisation. Loosely speaking, it doesn't matter so much what is targeted, as long as some direction of efforts takes place. However - and this is a particularly powerful lesson arising from Eastern Europe and Japan - this intervention cannot effectively occur through a single 'grand plan'. The setting of targets by the state - with or without a command economy - tends to be both ritualistic and ineffective. More important is the institution of planning as a process, involving all significant parties in targeting - for example, organised labour, capital and research institutions. In these circumstances the state becomes a dynamic facilitator and a 'knowledge-broker' rather than a source of definitive knowledge.

### Elements Of A Policy Agenda

From this brief summary of the nature of the present economic crisis, the opportunities open to a post-apartheid state and the short-, medium- and long-term problems which it is likely to face, it is possible to identify eight areas which require addressing through integrated policies. These are

considered only in barest outline.

(i) *Strategic Focus*

Any effective incoming state requires its message to be heard, especially where cooperation rather than coercion is an essential component of strategy. Thus a carefully crafted professional package is required. This not only requires the mobilisation of mass opinion, but also the persuasion of capital. Such tasks lend themselves to professional expertise and should not be underestimated.

(ii) *Capital Flight*

Capital flight is likely to be a major issue after transition. Here it is necessary to prepare for painful policy choices, since there are some important lessons to be learnt from the rent-seeking literature. Briefly, they argue that when controls are complex and pervasive, an enormous amount of energy is expended in circumvention; controls are often also associated with corruption. On the other hand, it is clear that a control-free environment would be a disaster for South Africa, especially in the area of foreign exchange.

Hence it will become necessary to establish a clear - but simple - policy regime designed to discourage capital flight, especially (but not exclusively) with regard to transfer pricing. However, the scale of this activity is likely to be so widespread, that a highly selective approach will have to be adopted. A scheme worth considering is the publication of severe penalties for activities such as transfer pricing coupled with the establishment of a small, highly-skilled *transfer price agency* whose job it is to selectively investigate - and then prosecute - cases of capital flight. The emphasis should be on deterrence with maximum publicity.

(iii) *Land Reform*

There is widespread evidence that small-scale farming is more labour intensive, more capital-efficient and more output-efficient than large-scale farming. Traditional fears that land reform is necessarily associated with a reduction in marketed surplus are not only unfounded, but may also not be especially relevant in South Africa (where production shortfalls, even with restructured demand, do not apparently appear to be problematic). However, these developmental advantages are only achieved when land reform is backed by an appropriate form of agricultural extension.

There is thus probably significant scope for an effective programme of land reform in many rural areas in South Africa. However the depth of alienation



from land means that there is often a widespread ignorance of agricultural practices so that complementary policies are a necessary component of this restructuring of the agricultural sector.

Further benefits arising from land reform are that it occurs in the context of heavy debt (so that there may be willing sellers, assuming that expropriation is ruled out for political reasons) and that it meets some of the demands of the rural constituency after transition.

*(iv) Education and Health.*

Investments in health and education both require restructuring. Priorities will have to alter to address the racial and geographic (rural vs urban) imbalance of current expenditure patterns. The content of these programmes will also have to alter, as will the delivery mechanisms. Particularly in health care there are questions of the optimum delivery vehicles - there is no persuasive reason why past patterns of large scale provision should be maintained.

Nevertheless, despite some efficiency gains which can be realised from this changing structure, there are bound to be constraints, especially with respect to the short-term. One potentially difficult problem which will require attention concerns the role of user charges, on an ability-to-pay basis. Another possibility is the role for a 'redistribution levy' (on all private health and private education expenditures) designed to fund health and education expenditures for the disadvantaged. Such a scheme would have the advantage of generalising an explicit commitment to redressing inequalities; the disadvantage is that it would just be seen as yet another tax.

*(v) Fiscal Care*

There are a range of money and fiscal policies which require addressing. Two particular areas are important. The first relates to the domestic arena, where a careful balance will be required between extreme fiscal conservatism (of the sort espoused by the IMF and the New Right) and fiscal neglect. At the heart of this is the need to recognise the inherent constraints in meeting mass expectations.

The second area of finance is that of international relations. Many international bankers now consider South Africa to be 'underborrowed'. To the extent that the existing debt is explained by the extra costs of sanctioned oil imports, this may be true. Nevertheless, it would be wise to exercise great caution in expanding foreign borrowing, and the principle should only be to contract extra debt where there is a reasonable expectation that these borrowings will be self-financing (in forex terms) within, say, five years. A

similar approach should be adopted towards foreign investment (that is, that it should only be encouraged where it leads to exports or to technology imports so that it is likely to be, on balance, net foreign exchange producing/conserving within five years). Such a policy on direct foreign investment may be problematic to enforce, however, since current initiatives in GATT (within the Uruguay Round) may make it difficult to impose such controls.

*(vi) Policies on Ownership*

Currently, most of the focus on ownership in South Africa lies in the privatisation/nationalisation debate. This is not the arena to address these issues in detail, but the following points may be worth noting. First, public ownership may occur with respect to a variety of sectors - services, distribution, agriculture, manufacturing and mining. Much of the existing discussion conflates these sectoral differences and is the source of considerable confusion and misunderstanding. Second, both for efficiency and political considerations, the extent of monopolisation of ownership in South Africa is unacceptable - some form of anti-trust legislation reform is clearly required; the break-up of these conglomerates is not necessarily the same as nationalisation. Third, there is more than one type of state-owned firm and nationalisation should not be equated either within large-scale forms of ownership, nor with the absence of competition (including that between state-owned enterprises). Fourth, the experience of successful industrialisers (especially mid-Italy and Taiwan) is that small, networking firms can be highly successful, especially in the context of penetrating export markets. Fifth, there may be a role for employee-owned enterprises. Sixth, a change in legal structure of the pension-funded investment houses (two of whom are amongst the big-six conglomerates) may provide virtually costless and immediate control of much of South Africa's manufacturing capacity. And, finally, nationalisation may be an important precondition for the introduction of marginal-cost pricing regimes and other forms of price differentiation in the utilities, especially in electricity (where much excess capacity exists).

However, in considering the whole issue of ownership, it will be important to bear in mind the fact that ownership does not necessarily confer control. But nor for that matter does control necessarily require ownership.

*(vii) Industrial Strategy*

Much more needs to be said regarding the formulation of an appropriate industrial strategy. But, in brief, this strategy should have twin objectives. The first involves an expansion of employment and incomes in the micro-enterprise sector, largely through a programme of low-cost housing. The

second is focussed on facilitating overall economic growth through the expansion of manufactured exports. A sector-led industrial strategy will require matching trade and fiscal policies, which will also be addressed in the industrial strategy document.

*(viii) Technology Policy*

The transition to an economic strategy of dynamic comparative advantage focussed on value-added (rather than price) competitiveness, and the expansion of the micro-enterprise sector requires matching technology policies. Four elements are important. First, wherever possible, technology generation should not occur within research establishments, but should be focussed at the sectoral and enterprise level. Second, long-term expertise should be built in the area of material sciences, since new materials technologies look likely to erode the long-term role to be played by commodity producers. Third, a further important area for long-term technological capability, lies in the horticulture sector. New seed technologies open opportunities for high value-added products, and close off those for low-price traditional products. And, finally, the expansion of the micro-enterprise sector - especially when, as suggested, this is linked to the provision of low-cost housing and low-income wage-goods - requires appropriate technologies, some of which are yet to be fully developed.<sup>11</sup> In turn, these products and technologies may well be associated with enhanced exports to other LDCs.

## Conclusions

Transition to a post-apartheid South Africa occurs in a complex geo-political environment, one in which almost all accumulators - at the private, regional and national levels - are being forced to re-evaluate their past trajectories. In many spheres of economic activity, and especially within industry, the ground-rules of 'efficiency' are changing in a way which is promoting of different (and perhaps more egalitarian) power relations in production. It is this which partly explains the demise of apartheid as a system of accumulation - growth through greed must necessarily give way to growth through redistribution.

Much of this provides positive opportunities to a post-apartheid South Africa. But a workable transition will have to steer carefully through a path littered not only with market and state failure, but also one in which issues of political economy dominate. These may simultaneously require reaching an accommodation with particularly unsavoury fractions of capital as well as the diversion of resources to meet basic needs. Holding this political balance together will require both enormous skill and fortuitous circumstances.

Clearly hard and unpleasant policy choices are inevitable. The substance of this short note has been to try and identify those critical medium- and long-term issues which are promoting of growth through a process of redistributing power and income. Such strategic targets are essential in the context of the short run exigencies which will inevitably concentrate attention during and after the transition process itself.

If a single underlying theme were to be identified it would be one focussing upon human resources. Apartheid accumulated by treating labour as a cost which had to be minimised and developed a complex and highly unequal political superstructure to promote this growth-path. Post-apartheid South Africa must view labour as a resource, whose potential has to be maximised. This, too, has an attendant political superstructure, but one in which power relations and income are allocated in a far more egalitarian manner. However it is a path which is increasingly recognised as being a prerequisite for modern competitiveness and hence growth. The centrality and linked nature of international competitiveness and human-centred growth paths should not be neglected in the evolving political debate.

#### Notes

1. There are two important provisos to this conclusion: (a) a sharply increased price of gold, which is unlikely, may relieve this growth constraint; (b) almost all of South Africa's existing foreign debt can be explained by the extra cost of oil-imports arising from sanctions.
2. In relation to the Regulationists' explanation of economic growth, apartheid failed to match mass-consumption with mass-production.
3. Indeed, during the 1980s, the value of the capital stock in manufacturing - measured in replacement, rather than historic costs - almost certainly fell in real terms.
4. The phrase 'micro-enterprise sector' is used rather than the 'informal sector' to distinguish our policy conclusions from those currently expressed by the 'deregulationists'. This is not to suggest that there is no overlapping between these two policy agendas.
5. Hopefully this will be without external destabilisation, thus freeing some resources from military expenditure.
6. Slyly, the 1990 budget is expanding 'welfare expenditure' through the proceeds of the privatisation exercise.
7. South Africa already has a high inflation rate; additional expansion of welfare expenditure (financed through a rising budget deficit) may push high inflation into hyper-inflation in the medium- and long-terms.
8. A major technological revolution in new materials science suggests lower demand for many raw materials and hence substantial problems emerging for commodity exporters. This issue is treated in a little more detail below.
9. It is assumed that by then basic literacy rates will have been raised significantly.
10. The socialist government in Chile, for example, neglected the importance of these policies and this was a major factor in the economic problems they experienced.
11. Two examples show the link between income distribution and technological change. First, the UCT Energy Group have devised a low-cost wood oven (R150) which increases fuel efficiency by 100%. This would only have cost a private firm around R100 000 to develop, but because it only meets the needs of the poor (rather than those expressed in the market place), this simple, but effective, technological development has been neglected for decades. Second, one sector in which South Africa has a revealed comparative advantage is in swimming-pool filtration systems, a direct reflection of market-led technological change. These two examples show not just the constraints on technological change, but also the significant opportunities.