The development decade?

Economic and social change in South Africa, 1994–2004

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Abbreviations and acronyms

ANC	African National Congress
ANC	antenatal clinic
ARV	antiretroviral
BAG	Basic Asset Grant
BCEA	Basic Conditions of Employment Act
BDS	business development services
BEE	black economic empowerment
BIG	Basic Income Grant
BSR	business–science relationship
CBO	community-based organisation
CCF	Concerned Citizens Forum
CDL	chronic diseases of lifestyle
CEIWU	Chemical, Engineering and Industrial Workers' Union
Contralesa	Congress of Traditional Leaders of South Africa
Cosatu	Congress of South African Trade Unions
CSG	Child Support Grant
CSO	civil society organisations
DA	Democratic Alliance
DAC	Durban Auto Cluster
DG	Disability Grant
DPLG	Department of Provincial and Local Government
DTI	Department of Trade and Industry
EAP	economically active population
EPWP	Extended Public Works Programme
EU	European Union
FDI	foreign direct investment
FET	further education and training
FGD	focus-group discussions
Fosatu	Federation of South African Trade Unions
GDS	Growth and Development Summit
GEAR	Growth, Employment and Redistribution
GJA	Greater Johannesburg Area

HIPC	highly indebted poor countries
IBRD	International Bank for Reconstruction and Development
ICLS	International Conference for Labour Statistics
IDI	individual in-depth interviews
IDP	integrated development plan
IFP	Inkatha Freedom Party
ILO	International Labour Organisation
IMF	International Monetary Fund
ISRDS	Integrated Sustainable Rural Development Strategy
KZN	KwaZulu-Natal
LED	local economic development
LFS	Labour Force Survey
LRA	Labour Relations Act
MDG	Millennium Development Goal
MERG	Macroeconomic Research Group
MFA	Multi-Fibre Agreement
MFN	most favoured nation
MIDP	Motor Industry Development Programme
NAIRU	non-accelerating inflation rate of unemployment
NDA	National Development Agency
Nedlac	National Economic Development and Labour Council
NES	National Enterprise Survey
NGO	non-governmental organisation
NIC	newly industrialised country
NIS	national innovation system
NRDS	National Rural Development Strategy
OAP	old age pension
OECD	Organisation for Economic Co-operation and Development
OEM	original equipment manufacturer
OHS	October Household Survey
PLU	poverty-line unit
PPP	public–private partnership
PRSP	Poverty Reduction Strategy Paper
PSLSD	Project for Statistics on Living Standards and Development
R&D	research and development

RDP	Reconstruction and Development Programme
S&T	science and technology
SACP	South African Communist Party
SADC	Southern African Development Community
Saldru	Southern African Labour and Development Research Unit
Sanco	South African National Civics Organisation
Sangoco	South African National NGO Coalition
SARB	South African Reserve Bank
SDCEA	South Durban Community Environmental Alliance
SDI	Spatial Development Initiative
SMMEs	small, medium and micro enterprises
SOE	state-owned enterprise
SPF	Sector Partnership Fund
StatsSA	Statistics South Africa
STD	sexually transmitted disease
STI	sexually transmitted infection
TAC	Treatment Action Campaign
TFP	total-factor productivity
TRC	Transitional Rural Council
TrepC	Transitional Representative Council
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNIDO	United Nations Industrial Development Organisation
WBLMS	World Bank Large Manufacturing Firm Survey
WDF	Wentworth Development Forum
WHO	World Health Organization
WSSD	World Summit for Social Development (1995)
WSSD	World Summit on Sustainable Development (2002)
WTO	World Trade Organization

1 Development discourses in post-apartheid South Africa

Vishnu Padayachee

For at least some of the contributors to this book, the question of whether or not the decade 1994–2004 can be characterised unambiguously or largely as a development success story remains an open one.[1] My sense is that in the first five years, South Africans were preoccupied with getting the model of development right – balancing the pressures, both direct and indirect, emanating from global sources and powerful local interest groups (especially internationally mobile white capital) with the need to address the appalling legacy of apartheid, a racially skewed history of oppression and exploitation, which left large swathes of the population marginalised, poor and without any or adequate health, housing and water.

So, the academic and policy debate was joined, often fiercely, around the competing models that did emerge. Initially, these included the contest between the economic ideas of the old regime – the neo-liberal Normative Economic Model, 1993, and those of the African National Congress (ANC) – the Keynesian approach of the Macroeconomic Research Group (MERG), 1993, and the Reconstruction and Development Programme (RDP), 1994. There was an equally fierce debate within the movement over economic policy – both MERG and the RDP were hotly debated between an older left-tradition and an increasingly powerful neo-liberal political elite within the Congress Alliance comprising the ANC, the Congress of South African Trade Unions (Cosatu) and the South African Communist Party (SACP). In the internal ANC debate, it was those within the latter camp who triumphed. MERG was dropped a few days before the Transitional Executive Council was launched on 7 December 1993. The RDP was (still is) occasionally trotted out as representing the real development agenda of the ANC alliance, but the new ANC-led government quickly moved to consolidate its economic strategy in the form of the Growth, Employment and Redistribution (GEAR) plan, which was put together by a team of mostly white, male economists,[2] and announced to the world as 'non-negotiable'. However, in the run-up to GEAR and even in the immediate post-GEAR period, academic articles, policy debate and party discussion documents still reflected the sense that the model of development was something still worth contesting.

This period in post-apartheid South Africa reminds one of what Philippe Hugon, writing about Francophone thinking in development economics, calls the 'period of modelisation', the years between the mid-to-late 1970s and 1990 when debate was joined in French scholarship between orthodox policies and alternative models of development. Nevertheless, and despite the rising power of neo-liberal orthodoxy, the outcome of this contestation, as Hugon (1991: 100) notes in the French case, was that:

> the Francophone tradition continues to give prominence to the questions that set development economics apart as a specific discipline. It takes into account the specificity of the basic units and of their architecture; it adopts a long-term perspective and tackles the historical density of society. It takes account of spatial asymmetries and dynamics.

All of these traditions were unequivocally part of the South African debate in the period I have referred to elsewhere as the 'decade of liberation', 1985–1995 (Padayachee 1998): specificity; the long term; historical density; spatial dynamics. Politics, power and class were also essential elements in the writings of the academics and activists of the time. This was evident in the papers presented at annual conferences of the Association for Sociology in Southern Africa; in the articles in the *South African Review*, published annually between 1983 and 1994, as well as those that appeared in the monthly magazine *Work-in-Progess*; in books such as *South Africa's Economic Crisis* edited by Stephen Gelb (1991); at Federation of South African Trade Unions (Fosatu) and Congress of South African Trade Unions (Cosatu) workshops; and at hundreds of activist meetings, both public and underground.

Are these traditions important in shaping South African development policy today? I would say yes. This 'political economy' approach to development at that time was to some extent ensured in the debates since the mid-1980s by the leading role that Cosatu played in the debate about economic transformation, both through the nature and character of its struggles, and through its active role in harnessing the expertise of progressive South African and foreign economists, many of whom were Marxist, in support of their thinking and strategy.

Has the post-apartheid development debate retained any of this tradition? I would say that the answer to this is a lot less clear. Cosatu's own strength and space for independent action has been weakened within the alliance, and the influence of the South African Communist Party (SACP) within the alliance has also declined. The new social movements remain fragmented and issue-based, although improved relations between these movements, Cosatu, to some extent even the SACP, and a small, but growing cadre of progressive academics may signal the beginnings of a more invigorated, deeper and broad-based debate over development strategy. Those former progressive economists who have joined the state bureaucracy have (perhaps understandably) to tow the line or have become university-based or private-sector consultants seeking out lucrative state contracts. Operating in this world, they came quickly to realise that their best interests would be served by punting simplistic, but politically attractive, economic solutions of the 'win-win' kind, working in the narrow and technical arena of supporting 'policy-making'.

In a blistering polemic, Desai and Bohmke (1997) capture what they term the 'retreat' in the thinking and practice of the progressive South African economists from the mid-1980s. The mainly white, male economists in the Economic Trends (ET) research group, they observe, were initially closely allied to the non-racial trade union movement, and distinguished themselves by being unafraid to criticise the tactics and strategies of the ANC-led liberation movement, when they felt this necessary. An anti-apartheid, 'Bohemian-style' subculture, Desai and Bohmke assert, knitted this exclusive group together. However, with the demise of apartheid, beginning around 1990, the 'bottom fell out of their market'. As the 'new government moved to the right', so the research work and theoretical disposition of progressive economists 'moved in tandem' (Desai & Bohmke 1997: 30–1). Most of the ET group, they contend, tossed their main weapon – critique – into the sea and sought their political rehabilitation, as the balance of power shifted to the ANC, by quickly becoming consultants to the ANC, and then by providing academic rationalisation for the neo-liberal economic philosophy of the new ANC-led government. 'Because this same set had so dominated left-thinking in South Africa, their betrayal has all but crushed a critique of the transition' (Desai & Bohmke 1997: 32).

What I intend to do now is to make some comments about development studies as a subject area of study, especially in the context of the way things have unfolded in the period of South Africa's transition to democracy. I would argue that some of the key concerns in what, following Bernstein, could be called the 'founding moment' of development studies remain the enduring issues at the heart of development studies today, despite 60 or more years of attempting to turn ideas and policy into sustained improvements in the quality of life of people in the 'Third World':

> [T]he founding moment of Development Studies was one of world-historical drama, as appreciated by those who shaped the contemporary intellectual frameworks of the meanings and means of development, and engaged in their contestations. This was a moment, then, of asking big questions and pursuing big ideas, with an expansive intellectual agenda that sought to identify and explain key processes of change in the formation of the modern world and their effects. (Bernstein 2005: 5)

I intend freely and somewhat randomly to explore some of these issues at both the global and South African levels, making four main points.

The first is the focus, indeed preoccupation, which I detect globally and in South Africa, on matters of measurement. The emphasis on measurement and getting data right is not new. After industrial capitalism was thoroughly rooted into European economic life, and in the midst of Marx's critique of it, the attention of some prominent social scientists turned to issues of measurement. The question, as AJ Taylor (1962: 380) puts it, was this: 'Did the condition of the working classes improve or deteriorate during the period of rapid industrial change between 1780 and 1850?' To answer this, it was necessary to measure changes in living standards through the movement of real wages, through changes in the patterns of working-class consumption, and via health and longevity indicators.

More recently, in 1988, the World Bank initiated the *Living Standards Measurement Study*, which was linked to the Bank's assessment of structural adjustment programmes and was undertaken in over 100 developing countries. It should come as no surprise that a similar study (the Project for Statistics on Living Standards and Development) was commissioned for South Africa at the request of the ANC 'government-in-waiting' on the eve of democratic elections. This 1993 study was conducted – not by the World Bank itself – but by the Southern African Labour and Development Research Unit at the University of Cape Town (perhaps a further recognition of South African exceptionalism!). However, the Bank provided 'technical assistance' to the project, which was funded by the governments of Denmark, the Netherlands and Norway (Klasen 1997: 52; May 2005).

It is essential to recognise the enormous value of this aspect of our work as social scientists. The Economic Development Strategic Initiative at the University of KwaZulu-Natal, for example, hosted an important and useful workshop called 'Making Data Work for Development' in December 2003. My point is that measurement, data and definitions should not be allowed to deflect the discourse into narrow, technical culs-de-sac. There are limits to what can usefully be achieved by aiming for some kind of perfection in measurement, and the development context into which such work fits should always be remembered. Thus, for example, Martin Greeley (1994) warns of the limitations and risks inherent in trying to measure indicators of welfare broader than income (such as good governance and quality of life), especially in situations where reductions in absolute poverty are still primary considerations of policy interventions.

South African development discourse displays signs of many of the trends just noted. Our core concerns today appear to be with issues such as: What is the level/rate of unemployment? How big is the informal economy? Are poverty and inequality getting worse? How large is the social wage? How many people have died of AIDS? How accurate are CPIX and growth figures? How accurate is the Gini coefficient? Patrick Bond (2004: 9) provides an example, which incidentally illustrates this (absurd) preoccupation with measurement, definitions and data:

> In late 2003, Pretoria decided to tackle critics who argued that the ANC government was creating poverty through its macroeconomic policies. Government ideologue Joel Netshitenzhe and policy analyst Andrew Merrifield relied upon Stellenbosch University professor Servaas van der Berg, who also consulted to the World Bank. Van der Berg tweaked the 'Gini coefficient' (the main measure of inequality) by measuring the impact of state spending on the 'social wage' and drawing inferences for inequality in the wake of government redistribution. Before this exercise, according to the UNDP, the Gini coefficient had risen from 0.59 to 0.64, with the Eastern Cape and Free State recording levels above 0.65. In contrast, Van der Berg determined that between 1993 and 1997, social spending increased for the poorest 60% of households, especially the poorest 20% and especially the rural poor, and decreased for the 40% who were better off, leading to a one-third improvement in the Gini coefficient. Merrifield borrowed the methodology and updated it, arriving at a 41% improvement in the Gini from the 1994 base year. However, he conceded to *ThisDay* newspaper, 'There were certain concerns voiced about us using the [Statistics SA] expenditure survey. Some

researchers have doubts about the statistical validity of its samples. We were not happy about using it and we said so, but it was the best data they had.'

A second point to be made is about the danger (which has to be resisted) in the attempt to 'cleanse' development studies of considerations of power, class and politics. James Ferguson (1990) has brilliantly captured this trend in his notion of the 'anti-politics machine' that 'depoliticises' development, and:

> marginalizes or displaces investigation and understanding of the sources, dynamics and effects of typically savage social inequality in the South, and of no less savage relations of power and inequality in the international economic and political system. It elides consideration of the violent social upheavals and struggles that characterize the processes and outcomes of the development of capitalism. (Bernstein 2005: 14)

For Gill Hart, a focus on what she calls 'small d' development, 'the development of capitalism as a geographically uneven, profoundly contradictory set of historical processes', and on 'non-reductionist understandings of class and power, constitutes a vitally important terrain for engagement in a world of profound injustice and material inequality' (Hart 2001: 650, 655).

Thirdly, if politics, class, power and struggle have gone out the window in development discourse in many parts of the world, mainstream economics has jumped into development thinking and policy (including in South Africa recently) in a big way. Economics (certainly political economy) has significant strengths to bring to the complex process of understanding development and to making and implementing policy, but it cannot do it alone (Kanbur 2002) – especially not the virulent brand of neoclassical economics that one finds dominating development discourse today. According to Bernstein:

> Another type of constraint on intellectual work in Development Studies stems from the hegemonism of neo-classical economics which has spiralled during the neo-liberal ascendancy, including the latest manifestations … of its ambition to subsume much of sociological and political inquiry within its own paradigm … And neo-classical economics provides intellectual support, with more or less plausibility, to the good intentions of 'win-win' discourse of development policy. (2005: 18)

The insistence within neoclassical economics on the primacy of mathematical modelling and econometrics is also problematic and limiting. While one has to recognise the usefulness and importance of modelling for some purposes, one must also understand its limitations. One of the economics profession's most celebrated mathematicians and a Nobel Prize winner, Wassily Leontief complained in a 1970 address to economists that 'the mathematical-model-building industry has grown into one of the most prestigious, possibly the most prestigious branch of economics. [Unfortunately] uncritical enthusiasm for mathematical formulation tends often to conceal the ephemeral content of the argument' (in Jacoby 1996: 159).

Fourthly, while I would accept the argument that development studies must be multidisciplinary and cross-disciplinary and should remain open to many social science disciplines, there are dangers in this that must be guarded against. Ravi Kanbur puts it this way:

> The social sciences need to come together to address specific and general problems in development studies and development policy. [But] there is the ever-present danger of the lowest common denominator. Instead of the strengths of each discipline, we may pick up the weaknesses of each. In the end, disciplinary narrowness may simply be replaced by lack of clarity. (2002: 484–5)

Worse still is the tendency capriciously and randomly to add more and more topics or to tack on issues that may be the current fad, all of which will make the field incoherent and chaotic. In my view, some disciplinary 'spine' is essential. This could differ from place to place or school to school in a university context – anthropology or political economy here, politics there – depending on structural and other factors linked to contemporary development challenges in particular contexts and times.

If the field of development studies is to have a distinct place within the social science milieu, it should be to raise, analyse, interrogate and always keep within view the 'big' questions of our day, equivalent to those posed at the founding moment of the discipline in the early post-war years, and to use the appropriate tools, methods and techniques in the service of larger intellectual and policy challenges.

I would contend that, by and large, the chapters in this volume are true to this understanding; perhaps the hesitancy (even paralysis) that characterised the thinking, writing and actions of many social science scholars working on South African development in the early years of the new democracy is coming to an end. Despite success in some areas of economic and social change since 1994, the scale of the development challenge that this country still faces, the stimulus being generated by social re-mobilisation amongst our people, a somewhat more conducive global context, and some signs that the government may be thinking about development in a more heterodox manner, could all contribute to a more creative and innovative response to South African development challenges by social scientists, here and abroad.

Let us end this chapter by looking briefly at the main themes and issues that are raised in this book.

Contemporary debates in a global context

Chapter 2 by US-based South African political economist Gill Hart, and Chapter 3 by Dani Nabudere, who is based at the Afrika Study Centre in Uganda, are an examination of African and South African development discourse within the context of a critique of the major theories of development that have emerged in the last 60 years, and the rise, fall and resurrection (as it were) of 'development theory' in the post-war period, as well as continuities and discontinuities in the way these theories have impacted on countries in the South, especially in Africa. Hart examines the relationships between these global development discourses and the post-war South African experience; Nabudere stresses the implications of the failure of development theory and practice to understand the local conditions of non-Western societies.

Macroeconomic balance and microeconomic reform

Managing the balance of macroeconomic and microeconomic policies became an issue during the first ten years of South Africa's democracy. The first two chapters in this section examine the initial wave of economic reforms in South Africa after the transition in 1994, focusing on macroeconomic reform. In Chapter 4, Rashad Cassim, Head of the School of Economics at Wits University, provides a rich and detailed account of the South African economic reform process, while the British economist, Jonathan Michie, looks at the employment effects of macroeconomic reforms (in terms of both the performance over the first decade of reform, and the possible options for the future) in Chapter 5. The correct identification of the microeconomic problematique and the implications of the policy sequence chosen, which emphasises macroeconomic stability over microeconomic reform, are the concern of the two other chapters in this section. The National Treasury's Kuben Naidoo and US economist Michael Carter reflect in Chapters 6 and 7 on the underlying nature of economic transactions in South Africa during the past decade, taking account of the legacies of previous policies of protection, regulation and division.

Distributive issues in post-apartheid South Africa

One of the key expectations of the new government was that it would address the legacies of racially determined poverty and inequality. What has its performance been in the last ten years? What policies and programmes have made a difference? What are some of the policy dilemmas around alternative uses of resources? In Chapter 8, Julian May, the current Head of the School of Development Studies (SDS) at the University of KwaZulu-Natal (UKZN), sets the scene by considering the conceptual debates around poverty and inequality, and how the social policy agenda is constructed. Chapter 9 by Francie Lund, also from the SDS, critically reviews social security spending in South Africa, one of the few countries in the world to experience a growth in such expenditure.

Global competitiveness, industrial upgrading and innovation

In the early 1990s, South African industry had to rapidly shift from an import-substituting industrialisation growth path towards one of engaging with the competitiveness demands of the global economy. A new industrial policy environment and new government support measures were meant to assist manufacturing enterprises in meeting these challenges, but only a few pockets of industry managed the upgrading and innovation transition to manufacturing excellence. Many firms have remained backward and uncompetitive. Chapter 10 by Jo Lorentzen of the Human Sciences Research Council (HSRC) grapples with the question of how demand for knowledge, especially by firms, is incorporated and articulated within discrete national and regional contexts. Chapter 11 by Morris, Robbins and Barnes, each now or once a member of staff of the SDS, examines the role of government in facilitating cluster development, with a focus on the auto sector in developing countries.

Municipal governance and development

The 1996 Constitution fundamentally changed local government into an independent sphere of government, described as the 'hands and feet' of reconstruction and development in South Africa. This is in line with an international trend to decentralise government. One of the new roles assigned to local government is the promotion of local economic development (LED). Wits University geographer, Chris Rogerson, in Chapter 12 critically reviews LED research agendas in South Africa over the last ten years. French economist Benoît Lootvoet and UKZN economic historian Bill Freund examine the 'fluid' concept of LED, with a focus on the port city of Durban, in Chapter 13.

Labour, work and the informal economy

Over the last ten years, there has been substantial debate about developments in the labour market, given especially the inheritance of apartheid policy and the rapid changes in the technological and skills requirements of the domestic economy, newly reinserted into the global economy. In Chapter 14, University of Cape Town (UCT) economist, Haroon Bhorat, conducts a microeconomic analysis of the labour supply and demand constraints on job creation. In South Africa, there has been a significant reconceptualisation of the notion 'informal economy'. In Chapter 15, SDS researchers Richard Devey, Caroline Skinner and Imraan Valodia examine trends in labour market data generally and specifically in the informal economy in South Africa since 1994.

Population, health and development

Most countries are concerned about how to incorporate health practices and health technology into the everyday life of all segments of society. Health has also been an important catalyst between population and sustainable development. SDS population expert Akim Mturi, with Thokozani Xaba, Dorothy Sekokotla and Nompu Nzimande, assess how families cope with illnesses and deaths, with a focus on diseases other than HIV/AIDS (Chapter 16). Pranitha Maharaj of the SDS and London School of Hygiene and Tropical Medicine's John Cleland look at the impact of men's and women's attitudes and perceptions on condom use, using surveys from cohabiting couples in KwaZulu-Natal (Chapter 17). One arena in which the performance of the new South African government has been highly contested, both locally and internationally, is that of HIV/AIDS. Two chapters by UKZN researchers examine the trajectory of the political and socio-economic aspects of HIV/AIDS in South Africa since 1994. SDS researcher Eleanor Preston-Whyte frames her analysis of this epidemic from a sociological perspective (Chapter 18), while Alan Whiteside and Sabrina Lee of UKZN's Health Economics and HIV/AIDS Research Unit focus on the more economic and developmental implications of the epidemic (Chapter 19).

Social movements and democratic transition

Two poles of opinion can be identified with regard to civil society. One view is that civil society should be a unified volunteer sector that aims to assist the democratic state to implement its agenda; the other is that civil society should constitute itself as a set of countervailing forces that can and should challenge state and corporate power. Chapter 20 by Habib (now at the HSRC), Imraan Valodia and Richard Ballard (both at the SDS) reviews these new social movements and assesses their significance for the consolidation of South African democracy. Independent writer and researcher Dale McKinley asks in Chapter 21 why the new social movements are likely to remain outside of the mainstream of the country's institutional politics and why the poor may no longer view active participation within our 'representative democracy' as being in their interests. In Chapter 22, London School of Economics geographer, Sharad Chari, explores two terrains of struggle in Wentworth, South Durban, a militant form of labour unionism and an environmental justice activism. There remain questions about the role of traditional authorities in rural development, and their relationship with democratically elected local government structures; UCT sociology professor Lungisile Ntsebeza deals with this important aspect of democratic transition and consolidation in Chapter 23, which focuses on the role of traditional authorities in rural development in the former bantustans since 1994.

Notes

1 For their ideas and inputs, I would like to thank my colleagues Julian May, Imraan Valodia, Caroline Skinner and Sharad Chari. None of them has read even a draft of this chapter, so must clearly be excluded from any culpability on matters of fact, interpretation or logic.

2 The late Professor Guy Mhone is, of course, the exception here. By all accounts his highly thoughtful contributions were sidelined within GEAR.

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Section 1
Contemporary debates in a global context

2 Post-apartheid developments in historical and comparative perspective

Gillian Hart

Introduction

Political liberation in South Africa in the early 1990s coincided with the zenith of market triumphalism, the death of post-war 'Developmentalism', the end of the Cold War, and confident declarations of the 'end of history'.[1] Over the past ten years, the global picture has shifted quite dramatically. The World Bank and other agencies have retreated from the harsh neo-liberal prescriptions of the Washington Consensus in favour of kinder, gentler discourses of social inclusion and poverty alleviation that are reminiscent in some ways of the decade of 'Basic Needs' in the 1970s. With the invasions of Afghanistan and Iraq we are also witnessing the resurgence of a virulent form of American imperialism, framed in terms of liberal civilising missions, regime change and nation building, and projects of reconstruction and 'development' spearheaded by Bechtel and Halliburton, along with the wholesale plunder of Iraqi resources.

Significant, if less dramatic, shifts have also taken place over the past decade in South Africa. The move from the neo-Keynesian Reconstruction and Development Programme to the Growth, Employment and Redistribution (GEAR) plan appears in retrospect as a sort of belated replay of the death of Developmentalism that accompanied the neo-liberal counter-revolution in the early 1980s. The 2004 election heralded a series of policy shifts that signify a retreat on certain fronts from the high GEAR phase of the mid-to-late 1990s. Articulated in Thabo Mbeki's State of the Nation address and again in his opening of Parliament in May 2004, they include an increase in government spending, a slowdown in the privatisation of key parastatals, an expanded public works programme, extending the social security net (although no Basic Income Grant), and new layers of bureaucracy in the form of community development workers who will help identify the unregistered 'indigent' and draw them into social security nets and municipal indigent policies. This apparent reversion to an earlier phase of Developmentalism is cast in the remarkably retro terms of 'First' and 'Second' Economies – a reinvention of the dualistic categories through which discourses of Development have operated since the 1940s. It is also eerily reminiscent of the First-World–Third World paradigm that the apartheid state deployed as part of its reformist strategy in the 1980s.[2]

In South Africa, as well as more generally, these sorts of shifts are the subject of considerable debate. On the one hand, there are those who welcome what they see as the (somewhat belated) arrival of Third Way-ism in the Third World and, on the other, those who dismiss them as sheep's clothing draped over a neo-liberal capitalist wolf. On a visceral level, I tend toward the latter interpretation. Yet I also think it dangerously crude, because it abstracts from the emergence of new forms of governmental power, as well as from the slippages, openings and contradictions that are crucial to any effort to grapple with possibilities for more far-reaching social change.

This brings me to the near-impossible brief I was assigned for this chapter – namely, 'a critique of the major theories of development that have emerged over the past 60 years'. What I am going to try to do, of necessity in extremely broad brush strokes, is identify a series of key turning points since 1944, and suggest their relevance for contending with contemporary questions of Development in the era of neo-liberal capitalism, both globally and in South Africa.

Building on an earlier set of arguments (Hart 2001, 2002a, 2004), I also want to suggest a framework for thinking about these moments of crisis and redefinition that distinguishes between 'big D' and 'little d' development, but understands them as dialectically interconnected. I define 'big D' Development as a post-World War II project of intervention in the Third World that emerged in the context of decolonisation and the Cold War. 'Little d' development refers to the development of capitalism as geographically uneven, profoundly contradictory historical processes of creation and destruction. Although state-led Developmentalism had been thoroughly discredited by the 1980s, official discourses and practices of Development have re-emerged in old and new guises in the era of neo-liberal capitalism, precisely in order to mediate its destructive fallout. While the intent of these interventions is clearly depoliticising, they also open up new possibilities.

Periodising post-war D/developments

The distinction I am suggesting between Development and development shares certain affinities with Cowen and Shenton's (1996) distinction between development as an intentional practice and an immanent process, but also departs from it in some important ways. Cowen and Shenton contend that development understood as intentional intervention – what they aptly call 'trusteeship' – was present at the very birth of industrial capitalism to confront the depredations and social disorder wrought by 'progress' (see also Kitching 1982). Thus, they insist, 'the idea of the intentional practice of development was not an invention of the post-1945 international order' (Cowen & Shenton 1996: 60).

Yet Cowen and Shenton are strangely silent on Karl Polanyi's (1944) monumental and related contributions in the form of what he called capitalism's 'double movement'.[3] The unleashing of markets for labour, land/nature and money, Polanyi maintained, wreaks profound havoc and generates counter-tendencies and demands for intervention and social protection. Far from the counter-movement representing some sort of external intervention in an inexorably unfolding teleology, these opposing tendencies are contained *within* capitalism. By the same token, the conditions for global capital accumulation must be actively created and constantly reworked.

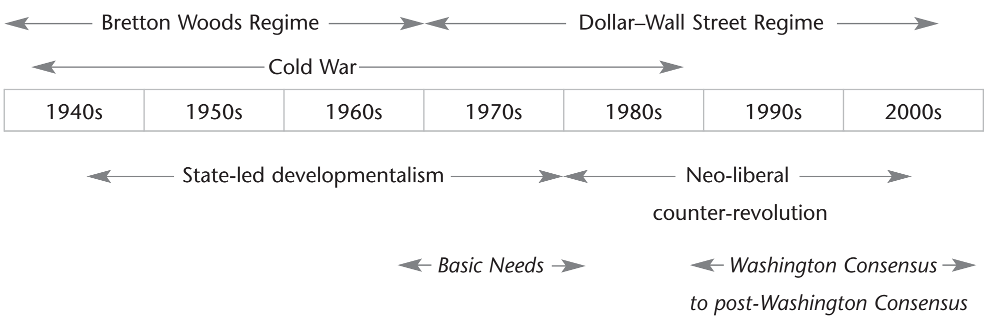
What I am calling 'little d' development refers not to an immanent process, but to these simultaneously creative and destructive tendencies. Equally, I want to insist on the specificity of interventions made in the name of 'big D' Development as a distinctive feature of the post-war international order, while at the same time focusing on the instability and constant redefinitions of official discourses and practices of Development. For proponents of the 'post-Development' critique, the birth of Development can be timed quite precisely: 'We propose to call the age of development that particular historical period which began on 20 January, 1949, when Harry S Truman for the first time declared, in his inauguration speech, the Southern hemisphere as "underdeveloped areas"' (Sachs 1992: 2; see also Escobar 1995: 3). From the perspective of post-Development, Truman's promise of an enlightened 'West' bringing progress to a benighted 'Rest' inaugurated Development as a discursive formation through which the Third World came to be defined as backward and in need of intervention and guidance along the path to modernity.

While the Cold War and Truman's Point IV Programme are crucial elements of post-war Development, the post-Development critique deploys a remarkably top-down conception of power. In a far more nuanced analysis, Fred Cooper locates the origins of Development in the imperial crisis of the late 1930s and 1940s, brought on by a series of strikes and boycotts in the West Indies and different regions of Africa. He shows how Development 'did not simply spring from the brow of colonial leaders, but was to a significant extent thrust upon them, by the collective action of workers located within hundreds of local contexts as much as in an imperial economy' (Cooper 1997: 85). In the post-World War II period, Development became a means by which Britain and France sought to hang on to their African colonies. They did so in part through the consolidation and management of an urban African working class – precisely the opposite of the apartheid 'solution' to labour uprisings in South Africa after the war.[4] Yet, colonial ambitions to create a docile class of urban citizens were thwarted by nationalist leaders, trade unionists and anti-colonial movements, deploying precisely these a-cultural discourses of Development in order to stake claims and demands.

Beyond illuminating African decolonisation struggles, Cooper's intervention underscores how Development can operate as much as a discourse of entitlement as a discourse of control. This alternative understanding also makes clear the limits of critiques by Wolfgang Sachs, Arturo Escobar, and others who define Development in terms of a power/knowledge system originating in the West that seamlessly produces subjects who define themselves as backward and underdeveloped.

More generally, I suggest, Development is most usefully understood in terms of the exercise of power in multiple, interconnected arenas, inseparably linked with the socially and spatially uneven dynamics of capitalist development. Part of what is useful about this sort of framing is its capacity to illuminate key turning points in official discourses and practices of Development over the past 60 years. It provides the basis, in other words, for a conjunctural analysis of shifts in the relationships between 'big D' and 'little d' development that can very broadly be periodised as shown in Figure 2.1.

Figure 2.1 A periodisation of 'big D' and 'little d' development, 1940s–2000s



In the discussion that follows, I focus on two key turning points and the connections between them: (a) the shift in the early 1970s from the Bretton Woods system of fixed but adjustable exchange rates to what Peter Gowan (1999) calls the Dollar–Wall Street Regime, along with the rise of finance capital and a new phase of American imperialism; and (b) the shift in the early 1980s from the post-World War II era of state-led Developmentalism to the neo-liberal counter-revolution in the context of the debt crisis, along with the vastly increased powers of the World Bank and International Monetary Fund (IMF) to impose loan conditionalities in much of Latin America and Africa, and parts of Asia.

While my main focus will be on the era of neo-liberalism, it is important at least to touch on the multiple instabilities and pressures that emerged over the course of state-led, neo-Keynesian Developmentalism, and forced a redefinition of official discourses and practices in terms of 'Basic Needs'. They include the limits of import substitution industrialisation; the neglect of peasant agriculture through much of the 1960s, associated with the disposal of US grain surpluses; and the breakdown of the post-war international food order at the end of that decade.[5] Of great importance as well are the Vietnam war, and the rise of anti-systemic movements (Arrighi, Hopkins & Wallerstein 1989), including what Watts (2001) calls Fanonite post-colonial movements:

> By the 1960s the nationalist wardrobe looked worn and threadbare. A broad swath of Latin American and African regimes had descended rapidly into military dictatorship, and the first generation of political elites – whether Sukarno in Indonesia, Nasser in Egypt or Nkrumah in Ghana – were quick to abandon any serious commitment to popular democracy. From this conjuncture emerged a veritable pot pourri of guerilla impulses – there were at least 30 major guerilla wars during the 1950s and 1960s! – student-led democratic movements, worker

> and union struggles, and nascent 'culturalisms' seen in the rise of the Muslim brotherhoods and aggressive ethnic communalism for whom corrupt state apparatuses, and a questionable record of nation-building, provided the fuel for their political aspirations. Whatever their obvious ideological and tactical differences, Maoist militants in Peru, middle-class students in Mexico City, Naxalite organizers in India and Muslim reformists in Cairo all shared a radical disaffection from the postcolonial state and the decrepit political cronyism of peripheral capitalism. (Watts 2001: 172)

Black Consciousness, the Durban strikes and the Soweto uprising can – for all their local specificity – be located on this larger canvas.

These pressures are central to grasping the redefinition of Development, exemplified by Robert McNamara's accession to the presidency of the World Bank in 1968. No doubt Bob's efforts to expiate his guilt for war crimes in Vietnam played into the new emphasis on poverty, inequality and unemployment, but it was the conjunctural crisis that created the conditions for the shift. The intellectual ethos of 'Basic Needs' hinged on the neo-populist claim that small-scale forms of production are relatively more efficient, and on the inversion of earlier dualisms. In place of notions that growth of the 'advanced' sector would drain the swamp of surplus labour lurking in the 'backward' sector, the 'informal' sector came to embody all the virtues lacking in its clunky, inefficient counterpart. The simultaneous discovery of hard-working women and peasants contributed to the mix, as did the widespread availability of Green Revolution grain technologies, which seemed to promise a quick solution to the world food crisis, as well as redistributive forms of production.

While discourses and policies of 'Basic Needs' in general fell far short of their stated aim of poverty alleviation, they were accompanied by massive resource flows. Between 1970 and 1980, according to Wood (1986: 83), total flows of financial resources to 'less developed countries' burgeoned from around \$17 billion to \$85 billion. Over the same period, loans grew from 79 per cent of total resource flows to 91.4 per cent. The most dramatic increase was in commercial bank lending and portfolio investment, which rose from \$777 million in 1970 to nearly \$18 billion in 1980. Medium- and long-term public debt shot up from \$75.1 billion in 1970 to \$634.4 billion in 1983 (Wood 1986: 130). It was the so-called 'Volcker shock' (1979–1982), when the US Federal Reserve base rate rose from an average of 8 per cent in 1978 to over 19 per cent in 1982, that ushered in the debt crisis, the neo-liberal counter-revolution and vastly changed roles of the World Bank and the IMF in Latin America, Africa and parts of Asia.

From Bretton Woods to the Dollar–Wall Street Regime

The passage from the collapse of the Bretton Woods system in August 1971 to the onset of the debt crisis in the early 1980s is a tale typically told in the following terms. First, the Nixon administration's ending of dollar convertibility and the devaluation of the dollar represented a defeat for a weakened American capitalism, battered, on the one hand, by competitive pressures associated with the economic ascendance of Germany and Japan and, on the other, by the quagmire in Vietnam and the rise of oppositional movements. Second, while the devaluation of the dollar created the conditions for the OPEC oil price rise, the escalation of oil prices in 1973 was carried out by the Gulf states as part of an anti-Israel and anti-US policy connected to the Yom Kippur wars. Third, the flood of petrodollars pouring into commercial banks created the economic incentive for massive loans to Third World governments during the 1970s that paved the way for the debt crisis.

This narrative is often linked to a related set of claims about the collapse of the Bretton Woods system presaging the decline, if not the disappearance, of the nation state, and the slide into a chaotic non-system driven by relentless technological and market forces. These are precisely the ingredients of what I have elsewhere called the 'impact model' of globalisation (Hart 2002b).

In his brilliant book *The Global Gamble* (1999), Peter Gowan offers a revisionist interpretation that carries vitally important implications for grasping contemporary forms of imperialism. First, he contests the widely held view that the ending of dollar convertibility represented the decline of US hegemonic power. Instead, Gowan (1999: 19) maintains that 'the Nixon administration was determined to break out of a set of institutionalised arrangements which limited US dominance in international monetary politics in order to establish a new regime which would give it monocratic power over international monetary affairs'. He concedes that US capital was indeed being challenged by its capitalist rivals in product markets at the time, in the context of a generalised crisis of accumulation, but argues that 'the breakup of the Bretton Woods system was part of a strategy for restoring the dominance of US capital through turning the international monetary system into a dollar-standard regime' (Gowan 1999: 19).[6]

Gowan also maintains that the Nixon administration exercised direct influence on the OPEC oil price rise – initially with the intention of whacking Germany and Japan, and subsequently insisting that petrodollars be recycled through commercial banks:

> The Nixon administration's second step was to try to ensure that international financial relations should be taken out of the control of state central banks and should be increasingly centred upon private financial operators. It sought to achieve this goal through exploiting US control over international oil supplies. Yet as we now know, the oil price rises were the result of US influence on the oil states and they were arranged in part as an exercise in economic statecraft directed against America's 'allies' in Western Europe and Japan. And another dimension of the Nixon administration's policy on oil price rises was to give a new role, through them, to the US private banks in international financial relations. (Gowan 1999: 21)[7]

As early as 1972, the Nixon administration planned for US private banks to recycle petrodollars to non-oil-producing states; other governments wanted petrodollars recycled through the IMF, but the US rejected this. At the same time, Gowan points out, US banks were hesitant to lend to Third World governments, and had to be provided with incentives. These included the abolition of capital controls in 1974, scrapping the ceiling on bank loans to a single borrower, and repositioning the IMF to structure bail-out arrangements that shifted the risk of such loans to the populations of borrowing countries. While ensuring the banks would not lose, these arrangements also meant that financial crises in the South provoked capital flight of private wealth-holders that ended up strengthening Wall Street.[8]

In other words, the recycling of petrodollars through the private banking system to Third World governments was not simply the product of economic incentives.[9] Instead, it was a key element of the re-engineering of international monetary and financial arrangements that undergird 'the new imperialism'.[10] A related and crucially important point is that what has come to be called neo-liberal globalisation emerges from this analysis not as a set of inexorable technological and market forces increasingly divorced from state–political controls, but as the product of deliberate power ploys that could have gone in other directions.

Reconfigurations of international financial arrangements in the wake of the collapse of the Bretton Woods regime also signalled a shift from gold to oil as the key global commodity – developments that have, of course, been of vital significance to South Africa. Prior to 1971, the fixed international price of gold minimised the fluctuations of South Africa's export earnings – a situation that, as Gelb (1991) points out, distinguished South Africa from other primary-commodity exporters in the post-war era. The benefits to South Africa from the increase in the gold price after 1971 were far outweighed, he argues, by the destabilising effects of fluctuating prices of gold and other commodities, and 'the behaviour of the South African economy has become more like that of other primary exporters' (Gelb 1991: 22).[11]

As South Africa staggered through amplifying economic and political crises in the 1970s and 1980s, other African, Asian, Latin American and Middle Eastern countries were becoming sharply bifurcated according to 'how well the state concerned coped with the volatile and often savage dynamics of the new Dollar-Wall Street Regime' (Gowan 1999: 48). Those countries that had taken the borrowing course became entrapped by debt, and hauled through the stabilisation (IMF) and structural adjustment (World Bank) wringer. In many Latin American countries, the 1980s became known as the 'lost decade'. For many in Africa, the 1980s were the start of an ongoing nightmare. A number of East Asian countries, in contrast, were able to avoid the debt trap.

The reasons for these divergent trajectories are subject to intense debate. In the early phases of the neo-liberal counter-revolution, key figures in the World Bank invoked rapid East Asian growth as incontrovertible evidence of the superiority of 'the market' over 'the state'.[12] This interpretation came under fire from a number of academics who invoked Chalmers Johnson's (1982) notion of the 'developmental state' to assert the powerful role of the state in East Asian accumulation.[13]

It was in the context of growing tension between the US and Japan over the deregulation of financial markets that the battle over the interpretation of East Asian 'miracles' moved into top gear, culminating in the World Bank's publication of *The East Asian Miracle* in 1993. Funded by Japan, this awkward, heavily vetted text conceded to state intervention in East Asian economies, but held firmly to a 'market-friendly' interpretation. Robert Wade's (1996) fascinating account of the production of this text illuminates how key figures within the Bank sought to fend off the Japanese challenge to neo-liberal orthodoxy, and the larger configurations of power within which this challenge unfolded. The story of *The East Asian Miracle*, he argues, shows the determining force of US values and interests in the functioning of the Bank. Yet, this influence does not simply reflect direct pressure from US government officials. It operates primarily through the Bank's reliance on world financial markets, and 'the self-reinforcing congruence between the values of the owners and managers of financial capital and those of the US' (Wade 1996: 35). This process of prising open capital markets in East and Southeast Asia fed into the Asian financial crisis of the late 1990s – and, as we shall see later, to mounting calls from influential quarters for a 'post-Washington consensus'.

First, though, let us focus attention on how the so-called 'Chicago Boys' in Chile formed the advance guard of neo-liberal market triumphalism, and how the Chilean experiment helped shape the specific but interconnected forms of neo-liberal capitalism in key parts of the 'advanced core' as much as in large swathes of the 'periphery'.

Neo-liberal D/developments

> The neo-liberal ideological wave that inundated the United States following the election of Ronald Reagan, and Great Britain under the Thatcher government … began in Chile in 1974 not simply as a set of economic measures, but rather as a broad, revolutionary ideology … In the context of violent change in political power structures, it was used by the new military rulers as the requisite substance for radical transformation of the state. (Valdés 1995: 5)

When the CIA-sponsored military coup headed by Augusto Pinochet overthrew socialist president Salvador Allende's government on 11 September 1973, a group of between 50 and 100 Chilean economists, trained at the University of Chicago since the late 1950s, was waiting in the wings. The Chicago Boys moved quickly to dismantle Allende's programme, and launch what was then the most radical free-market strategy anywhere in the world. Funded by US government representatives in Chile who sought to combat 'socialist ideology', the Chicago Boys were the product of close connections between conservative forces in Chile and key figures in the Department of Economics at the University of Chicago (Valdés 1995).

At the height of Keynesian influence in the post-war period, the University of Chicago became a bastion within the walls of which neo-liberal tenets were forged. In *Capitalism and Freedom* (1982: vi), Milton Friedman recalled how, in the 1950s, 'Those of us who were deeply concerned about the danger to freedom and prosperity from the growth of government, from the triumph of the welfare state and Keynesian ideas, were a small beleaguered minority regarded as eccentrics by the great majority of our fellow intellectuals', while his colleague Harry Johnson spoke of 'the small band of the initiate' who 'kept alive the understanding of the fundamental truth through the dark ages of Keynesian despotism' (in Valdés 1995: 60). They included the Austrian economist Freidrich von Hayek, Keynes' right-wing rival since the 1930s, who moved to the University of Chicago in 1952.

Of course, the discrediting of Keynesianism in the 1970s was bound up with broader economic crises, but Chicagoans contributed to the assault and marched into the breach brandishing a version of market fundamentalism far more radical than nineteenth- and early twentieth-century economic liberalism. They also provided direct and active support for their Chilean advance guard following the 1973 coup: 'Key figures like Milton Friedman, Hayek himself, and Arnold Harberger, a Chicago economist married to a Chilean who was the spiritual godfather of many of the Chicago Boys, appeared in Chile, often to throw their weight behind their protégés at crucial moments' (O'Brien & Roddick 1983: 57).

Thus, at precisely the moment that global financial arrangements were being reconfigured, Chile provided the testing grounds upon which neo-liberal doctrines gained traction, and from which they were picked up and used in other parts of the world. When the debt crisis hit in the early 1980s, IMF and World Bank economists made extensive use of the Chilean 'success' – along with the twisted interpretation of East Asian 'miracles' mentioned earlier – to set in place the harsh stabilisation and structural adjustment policies of the 1980s in many other parts of Latin America and in Africa. The Chilean experiment also played into the rise of Thatcherism and Reaganism (Valdés 1995).

The way neo-liberalism took hold in the 1980s in Aoteroa-New Zealand – one of the major sites of Keynesian welfarism in the post-war period – is particularly interesting from a South African perspective, precisely because it was not imposed by the IMF and World Bank. In his compelling analysis of the connections between Chile and New Zealand, Len Richards (2003: 130) observes that:

> Neoliberalism arrived in New Zealand, like Chile, as the result of a 'calculated bid' to implant it, but it arrived at its destination via the Trojan Horse of the 1983–90 Labour Government rather than at the point of a gun. The role of the Labour Party was crucial. The implementation of policies that attacked the very mechanisms of class compromise in New Zealand would probably have required … some form of dictatorship if not carried out by what is putatively the working class's 'own' political party.

The key to 'success' in the introduction of neo-liberal policies in New Zealand, he points out, was the role played by trade union leadership in 'the muting and pacification of potential organised working class resistance' (Richards 2003: 129).

Taken together, the Chilean and New Zealand experiments offer two particularly useful insights into broader questions of neo-liberalism. First, neo-liberal forms of capitalism did not simply arise in the 'core' and spread from there to the 'periphery', as many observers suppose. Instead, they are more usefully seen as the product of power-laden practices and processes of spatial interconnection. In addition, as Richards aptly notes, 'It is important to understand that the Chilean and New Zealand experiences were constituent elements in the creation of the Washington Consensus, not just formal applications of some pre-existing plan' (2003: 128). The core-centric model of neo-liberal diffusion is closely analogous to the 'impact model' of globalisation mentioned earlier, both of which portray neo-liberal globalisation in terms of inexorable technological and market forces.

Second, as Gramsci pointed out some time ago with reference to earlier forms of economic liberalism, '*laissez-faire* too is a form of State "regulation", introduced and maintained by legislative and coercive means' (1971: 160). It is, he went on to insist, a political programme and not the spontaneous, automatic expression of 'economic facts'. Experience in Chile and New Zealand makes clear how the installation of neo-liberal forms of capitalism articulates with the political structure of the state and the balance of political forces in complicated and widely varied ways.[14]

A third set of considerations turns around the concept of governmentality, originally derived from Foucault and now widely deployed in some circles as an analytic construct with which to come to grips with contemporary questions of neo-liberalism. As I have discussed more fully elsewhere (Hart 2004), notions of governmentality are also becoming increasingly prominent in the Development literature, partly in reaction to the rather crude top-down notions of power that inform the post-Development critique.

Governmental power, in this view, operates not through imposition or repression, but rather by cultivating the conditions in which non-sovereign subjects conduct themselves. In addition, the concept of governmentality decisively decentres the state as a monolithic source of power, a move that opens up for examination not only diverse government agencies but also a multiplicity of other sites. The concept of governmentality calls for precise diagnoses of the rationalities of rule, the forms of knowledge and expertise they construct, and the specific and contingent assemblages of practices, materials, agents and techniques through which these rationalities operate to produce governable subjects.

In opposition to those who see neo-liberalism simply or primarily in terms of a retreat of 'the state' from 'the market' (or the economy), proponents of governmentality place primary emphasis on neo-liberalism 'as promoting what might be called an *autonomization* of society through the invention and proliferation of new quasi-economic models of action for the independent conduct of its activities' (Burchell 1993: 274). Rather than *less* government, neo-liberalism, in this view, represents a *new modality* of government predicated on interventions to create the organisational and subjective conditions for entrepreneurship – not only in terms of extending the 'enterprise model' to schools, hospitals, housing estates and so forth, but also in inciting individuals to become entrepreneurs for themselves. In addition, this process of 'responsibilisation' often goes hand in hand with new or intensified invocations of 'community' as a sector 'whose vectors and forces can be mobilized, enrolled, deployed in novel programmes and techniques which encourage and harness active practices of self-management and identity construction, of personal ethics and collective allegiances' (Rose 1999: 176).

Fierce debates are currently raging over whether Gramsci or Foucault provides greater analytical traction into neo-liberalism, and over whether (and, if so, how) it is possible to combine their insights. While the scope of this paper precludes my engaging in this debate in any depth, other than to signal my Gramscian predilections, I do want to make two related points.

First, attention to technologies and rationalities of rule is undoubtedly useful but also, in my view, quite limited. O'Malley, Weir and Shearing (1997: 514) point to the danger of governmentality studies degenerating into 'ritualized and repetitive accounts of "governing" in increasingly diverse contexts' – a danger, they argue, that derives from the tendency to define politics in terms of mentalities of rule, to emphasise the programmatic nature of rule and to rely heavily on texts of rule. Deliberate distancing from messy processes of implementation means that the constitutive role of contestation drops out of sight, and what remains is an 'insular and episodic vision of rule' (1997: 512). In the critical Development literature there is far greater attention to these messy processes of implementation. Li (1999), for example, distinguishes between Development as governmental *projects* of rule and their actual and often precarious accomplishment in practice (see also Moore 2000). In similar vein, Gupta draws on an ethnographic study of a childcare scheme in India to illustrate 'how governmentality is itself a conjunctural and crisis-ridden enterprise, how it engenders its own mode of resistance and makes, meets, molds, or is contested by new subjects' (2001: 69).

Second, while these arguments are clearly important, the question remains as to whether and how one situates Development projects in relation to the multiple-scaled processes of capital accumulation that I am calling 'little d' development. Prominent neo-Foucauldian proponents of governmentality such as Nikolas Rose would strenuously oppose any such move, smacking as it does of Marxism. Yet, these Eurocentric analyses of neo-liberal governmentality in 'advanced liberal democracies' are incapable of coming to grips with the social dislocation and disruption that have accompanied the unleashing of neo-liberal forms of capitalism in different regions of the world, and with the rise of an enormous array of oppositional movements.[15]

These and other instabilities, dislocations and struggles are crucial to grasping the resurgence – especially since the mid-to-late 1990s – of official discourses and practices of Development, and their relationship to 'the new imperialism'. Elsewhere, I have traced some key processes through which the market orthodoxy that seemed so firmly entrenched in the early 1990s has given way to far more overtly interventionist moves to contain disruptive tendencies, with multilateral and bilateral aid agencies actively reasserting and extending their mission of trusteeship in the name of Development (Hart 2001). These dynamics go a long way towards explaining the paradox to which Henry Bernstein has recently called attention:

> Freeing the market to carry out the tasks of economic growth for which it is deemed uniquely suited rapidly escalated into an extraordinarily ambitious, or grandiose, project of social engineering … Comprehensive market reform confronted similarly comprehensive state reform (rather than simply contraction) as a condition of the former; in turn, the pursuit of 'good governance' quickly extended to, and embraced, notions of 'civil society' and social institutions more generally. In short, the terrain of development discourse and the range of aid-funded interventions have become ever more inclusive to encompass the re-shaping, or transformation, of political and social (and, by implication, cultural) as well as economic institutions and practices. (2005: 11–12)

Such considerations are also directly relevant to grappling with changes over the first ten years of the post-apartheid order.

Unfolding post-apartheid D/developments

> Now, this is, as it were, the modern part of South Africa, with your aeroplanes and your computers and the people sitting around this room, who read and write and so on. We, all of us, we are this modern sector … So, you then have this large part of South Africa, which is relatively uneducated. It is unskilled. It is not required in terms of modern society. I am saying 'required' in the sense of employability. So, we have recognised this from the beginning, that large numbers of our people are poor and are in this condition. You can make the interventions we make about modernisation of the economy and so on, but it wouldn't necessarily have an impact on them, because of that degree of marginalisation. Therefore, you needed to make different sorts of intervention.[16]

The media briefing by President Thabo Mbeki (from which the above extract is taken) following the Cabinet Lekgotla on 29 July 2003 is enormously significant, inaugurating (as far as I can tell) official discourses of a First and Second Economy. This dichotomy figured prominently in the ANC's Ten Year Review later in 2003, its manifesto for the 2004 election, Mbeki's State of the Nation address in February 2004, his opening address to Parliament in May 2004 and a slew of statements by lesser luminaries.[17] From the perspective of what I am calling 'big D' Development, one of the clearest and strongest articulations can be found in 'Transform the Second Economy' on the *ANC Today* website:

> Contrary to arguments about minimal state intervention in the economy, we must proceed on the basis of the critical need for the state to be involved in the transformation of the Second Economy. This state intervention must entail detailed planning and implementation of comprehensive development programmes, fully accepting the concept of a developmental state.[18]

Retreat from the GEAR-style neo-liberal orthodoxy of the mid-1990s began several years earlier. Padayachee and Valodia (2001) discerned signs of 'changing GEAR' in the 2001

Budget – including an economic growth strategy that suggested a retreat from the Washington Consensus, and a more interventionist stance in infrastructural development, industrial policy and labour market concerns. Over the next two years these trends continued. Even so, the First/Second Economy discourse, with its insistence on active state intervention to improve the Second Economy, seems to herald a qualitatively new phase in the post-apartheid order, at the same time as it reverts to a much older Development lexicon of a dual economy, as well as the imperatives for 'detailed planning and implementation of comprehensive development programmes' (*ANC Today* 26 November 2004).

Most press commentary seems to have ranged from cautious optimism to celebration. In one of the few more critical takes, Lukano Mnyanda (*Sunday Times* 13 June 2004) called into question official claims that these shifts have been made possible by fiscal prudence, and cast doubt on portrayals of a structural divide between the First and Second Economies:

> The SA that used to have an economy characterised by massive inequalities largely mirroring racial and ethnic differences, has been transformed overnight into one with two distinct economies, co-existing side by side. When were they separated, and who gains from this separation? Who belongs to which economy? Is the second economy simply a separate entity that needs to be pulled up by the first as an act of charity or are the linkages more profound? One can't help but be suspicious that the talk of two economies could turn out to be nothing more profound than a politically convenient excuse for the failure so far to deliver on the country's great challenges – to reduce poverty and unemployment.

Building on the earlier discussion of the dialectical interconnections between 'big D' and 'little d' development, one can suggest several additional considerations and angles of analysis. From a broadly Polanyian perspective, recent shifts can be seen at least in part as an effort to contain the pressures emanating from the rise of oppositional movements protesting the inadequacies of service provision, the snail's pace of land redistribution, failures to provide antiretrovirals, and the absence of secure jobs – as well as pressures from within the ANC–SACP–Cosatu Alliance. As I have argued more fully elsewhere (Hart 2005), the Bredell land occupation in July 2001 signified a profound moral crisis of the post-apartheid state. Coming as it did barely a month before the World Conference Against Racism, Bredell also fuelled a series of spectacular and highly embarrassing protests. These, in turn, contributed to the formation of transnational connections, such as the Landless People's Movement's links with the Brazilian *Moviemento Sem Terra*. A year later, in August 2002, the World Summit for Sustainable Development (WSSD) provided a venue for extending and intensifying these protests and connections.

In the period following the WSSD, senior government officials launched concerted attacks on the 'ultra-left', excoriating the 'anti neo-liberal coalition' and accusing it of acting in alliance with 'real neo-liberals' (i.e. the Democratic Party) and foreign elements hostile to the national democratic revolution.[19] Along with strenuous denials of charges of neo-liberalism – and disciplinary threats against those in the Alliance attaching this label to the ANC – Mbeki and others issued a series of statements emphasising that the ANC has never been socialist, and staking out a social democratic position along with a renewed emphasis on the 'National Democratic Revolution'.[20] The 'Strategy and Tactics' document prepared for the December 2002 conference of the party describes the ANC as the 'leader of the national democratic struggle, a disciplined force of the Left, organised to conduct consistent struggle in the interests of the poor'.

The debut of First/Second Economy discourses in the middle of the following year can be seen precisely as an effort to contain these challenges and render them subject to government intervention. The operative question, then, is not whether the First/Second Economy is an accurate portrayal of reality, but rather how it is being constructed and deployed to do political – or, perhaps more accurately, depoliticising – work. What is significant about this discourse is the way it defines a segment of society that is superfluous to the 'modern' economy, and in need of paternal guidance. As Mbeki makes clear in his press statement cited earlier, those falling within this category are citizens, but second class. As such, they are deserving of a modicum of social security, but on tightly disciplined and conditional terms. To qualify for a range of targeted programmes, they must not only be identified and registered, but also defined as indigent. The role of a newly defined cadre of community development workers in tracking down 'the indigent' and tying them into structures of social security is of great significance here, as is the growing emphasis on public works.

These strategies for identifying and treating a 'backward' segment of society provide an explanation for the vehemence with which powerful figures in the ANC have dismissed the Basic Income Grant (BIG). Mbeki's response to a question about the BIG at the July 2003 press conference on the Cabinet Lekgotla is quite revealing: 'To introduce a system of social support, which indiscriminately gives to a millionaire R100 and to this poor old lady on a pension R100, it really doesn't make sense.' Charles Meth (2005: 3) has recently taken the president to task for this and other misrepresentations of the BIG, arguing that universal grants are preferable because 'they do not stigmatise recipients in the same way that targeted grants do'. He also makes a compelling argument as to why a BIG is likely to be far more effective in addressing poverty than the much-vaunted Extended Public Works Programme. The reason why the ANC government rejects the BIG, I suggest, is precisely because it is a universal grant – and therefore lacks points of leverage for instilling in its recipients the 'correct' attitudes and aspirations. This consideration goes a long way towards explaining former Minister of Trade and Industry, Alec Erwin's remark that 'the problem with the BIG is not the money but the idea'.[21]

It is one thing to identify the depoliticising intent of discourses of a Second Economy, and quite another to presume that such intentions are necessarily secured in practice. These discourses, I suggest, represent not so much a shift from race to class apartheid as a re-articulation of race and class that is shot through with tensions as well as possibilities for contestation. For example, black economic empowerment its uneasily astride the discursive divide between the First and Second Economies, serving to underscore the deeply conservative character of post-apartheid race–class articulations. In addition, precisely because the notion of a Second Economy carries with it the implications of second-class citizenship, it becomes vulnerable in terms of the ANC's own invocation of its position as the standard-bearer of the national democratic revolution.

In these and other ways, what James Ferguson (1990) termed the 'anti-politics machine' of Development could become part of a revitalised politics to press for greater economic justice to realise the promises of democracy. Whether and to what extent these possibilities are realised in practice will hinge crucially on the capacity of popular movements and critical forces within the Alliance to forge connections with one another.

Notes

1 For constructive comments and criticisms, I am grateful to Henry Bernstein, Vishnu Padayachee, David Szanton and other participants at the conference on 'Reviewing the First Decade of Development and Democracy in South Africa', Durban, 21–22 October 2004. Thanks also to Saul Wainwright for excellent research assistance in preparing this paper.

2 For an incisive analysis of the establishment of the Development Bank of Southern Africa in the 1980s, as part of an effort by apartheid state officials to 'depoliticise development in the interests of neutrality, professionalism and technical competence', see Sharp (1988).

3 One can take Polanyi to task on a number of points, while also recognising the power and contemporary salience of his analysis – see, for example, Burawoy (2003), Silver & Arrighi (2003) and De Angelis (2004) for recent engagements with Polanyi within a broadly Marxist lineage.

4 'British and French officials both thought that the solution to the social problem [of the emergence of a militant urban working class] lay in European knowledge of how to manage a working class. They began to separate out a compact body of men who would benefit from improved urban housing and resources and higher pay, who would acquire an interest in a specific career line, and who would bring their families to the city and become socialized and acculturated to urban life and industrial labor over generations. Officials thought trade unions would not only mold grievances into defined categories to which employers would respond, but that they would provide institutions through which workers would feel socially rooted in the city.' (Cooper 1997: 74)

5 For an interesting take on import substitution industrialisation, see Maxfield & Nolt (1990). Friedmann (1982) provides a brilliant analysis of the global structure of grain production and distribution, and its breakdown in the late 1960s and early 1970s.

6 He notes, for example, that 'The August 1971 decision to "close the gold window" meant that the US was no longer subject to the discipline of having to try to maintain a fixed par value of the dollar against gold or anything else; it could let the dollar move as the US Treasury wished and pointed towards the removal of gold from international monetary affairs. It thus moved the world economy on to a pure dollar standard' (Gowan 1999: 19–20). As John Williamson (of Washington Consensus fame) put it, 'the central political fact is that the dollar standard places

the direction of the world monetary policy in the hands of a single country, which thereby acquires great influence over the economic destiny of others' (in Gowan 1999: 20).

7 The denomination of oil in terms of dollars is, of course, one of the key reasons why the US is able to run huge deficits with the rest of the world.

8 For example, during the debt crisis of the early 1980s, the capital outflow from Argentina, Mexico and Venezuela has been estimated at $58.8 billion (Gowan 1999: 35).

9 While borrowing from Wall Street was both easy and economically rational in the conditions of the 1970s, borrowing governments failed to grasp that the entire macroeconomic framework could be transformed by '*political decisions about the dollar price and interest rates of the US government transmitted through the world economy by the DWSR [Dollar Wall Street Regime]*' (Gowan 1999: 48 italics in original).

10 This is the term used by both Biehl (2000) and Harvey (2003). Indeed, Harvey draws directly on Gowan in his analysis of how the shift from the Bretton Woods regime to the Wall Street/US Treasury/IMF regime has served as a 'formidable instrument of economic statecraft to drive forward both the globalization process and the associated neoliberal domestic transformations' (Harvey 2003: 129).

11 For an analysis of shifts in South Africa's international financial relations from 1970 to 1990, see Padayachee (1991).

12 See, for example, Balassa (1981) and Krueger (1981).

13 They include Amsden (1989), Wade (1990), Castells (1992) and Evans (1995). Yet, as Gore (1996) has argued, the construction of East Asian debates in terms of 'states versus markets' fails to recognise how East Asian strategies 'are based on an explanatory framework which analyses national patterns and processes within a global context, and a nationalist normative framework which seeks national economic development through rapid industrialization' (Gore 1996: 78).

14 In drawing on Gramsci to come to grips with Thatcherism, Stuart Hall (1988) made a very similar point.

15 At the risk of oversimplifying, one can point to the so-called IMF bread riots in the 1980s in the many parts of Africa and Latin America that were subjected to harsh stabilisation and structural adjustment measures; the myriad environmental movements fighting against the destruction of nature; struggles unleashed by the privatisation of water and other basic services; the rise of militant land movements such as the *Moviemento Sem Terra* in Brazil; and, of course, the anti-capitalist/anti-globalisation movements that burst onto the international stage in Seattle in 1999. In addition, as Paul Lubeck (2000), Michael Watts (2003) and others have suggested, the rise of Political Islam understood as an 'anti-systemic movement' is intimately linked with the crisis of the secular nationalist Development project. Elements of this crisis include what Watts calls the 'decrepit rentier capitalism' associated with the oil boom; the petro-bust of the mid-1980s that brought IMF/World Bank-led austerity and neo-liberal reforms crashing down on a number of Middle Eastern and West Asian states; and the complex geopolitics of the region: 'The historical confluence of these powerful forces – all saturated with an American presence in the form of oil companies, global regulatory institutions, foreign investment, and military commitments – crippled, one might say destroyed, a secular nationalist project that was, in any case, of shallow provenance' (Watts 2003: 65).

16 <www.info.gov.za/speeches/2003/03080511461001.htm> Accessed 30 June 2004.

17 For documentation, see the references provided by the South African Regional Poverty Network <www.sarpn.org.za/documents/d0000830/index.php> Accessed 30 June 2004.

18 <www.anc.org.za/ancdocs/anctoday/2004/text/at47.txt> Acessed 19 December 2004.

19 In September 2002, the Political Education Unit of the ANC issued a document entitled Contribution to the NEC/NWC Response to the 'Cronin Interviews' on the Issue of Neoliberalism; see also Dumisani Makhaye, Left Factionalism and the NDR: The ANC must Respond to Professionals of the 'Left' <www.anc.org.za/ancdocs/anctoday/docs/atsup021129.htm>.

20 For an insightful discussion of how critiques from the left were sidelined at the national conference, see William Mervin Gumede, Who Would Dare Lean to the Left Here? (*Sowetan* 23 December 2002); and for a clear statement of the disciplining of the left, see Dumisani Makhaye, Left, Right in Combat (*Sowetan* 19 December 2002).

21 Mentioned by Francie Lund, in a debate on the BIG at the University of Natal, Durban, 31 October 2002.

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3 Development theories, knowledge production and emancipatory practice

Dani Wadada Nabudere

Introduction

Development theory can now be declared dead but not yet buried. It can be declared dead because it has been a mismatch between theory and practice, wherever it has been applied. It is not yet buried because its ghosts still linger on in abstruse policy declarations by those forces that stand to gain most through its perpetuation in their 'development projects'. It is now widely acknowledged that development theory rose but then fell because, as Colin Leys noted, its practical ambitions had, over the years, been increasingly reduced (Leys 1976; see also Norgaard 1994; Hettne 1995; Nabudere 1997; Arif 2002). In its trails of failed applications, it has left behind it skeletons of development experiences that were never replicated according to the evolutionist conceptions of society upon which these theories were constructed.

These theories were based on misconceptions about human behaviour and the diverse human capacity to implement programmes that were supposed to be for their good, based as they were on sound scientific understanding of their societies and cultures by those who knew about them from outside. In fact, the very idea that the peoples of Africa, the Near East, Asia and Latin America knew what was good society, was dismissed as being an illusion, since these others were judged by European modernity to be incapable of self-rule or progressive action. All these societies were thought capable of was despotism. As the late Palestinian scholar Edward Said (1992), has observed of the European understanding of the 'Orient', the issue of Orientalism as a category of understanding of the other arose in the context of the attempt by European imperialism to dislodge and disorient the 'Orients' in order to control the production of knowledge about them and then exercise power over them.

Said goes on to observe that the supremacy that Britain assumed over Egypt was seen in terms of British knowledge of Egypt. Initially, the British were not concerned principally with military or economic power over Egypt, but their knowledge of the 'Orients' was a form of power. The second theme was for the British to rise above immediacy, beyond self, into the foreign and distant. Here the importance of having such knowledge about the distant other was to be able to dominate it and exert authority over it. In effect, this meant denying autonomy over the object of domination since its existence was only recognised inasmuch 'as we know it' (Said 1992; 1994).

Thus, it is not surprising that the first discourse and discipline of knowledge of the colonisers about the distant others was Orientalism. Then came anthropology, a discipline dedicated to the study of 'primitive societies' in Africa and the Americas. Development theories are an evolution of these two disciplines. In their turn, these theories were a summation of the Western worldview in their self-conception and 'development' experience. The theories are derived from a large stock of information drawn from Western countries, which include their traditions, ethnic structures, populations, manners, behaviours, economic conditions and lifestyles, which were assumed to be 'universal' in their essence (Arif 2002).

The problem with this development experience, however, was that when the theories on which the experience was based came to be exported to non-Western societies, the local conditions were ignored. This arose out of the fact that Western theorists believed that since the model was a 'scientific' one, it reflected a universal human experience, which could be replicated elsewhere. In other words, if the conditions were not the same as those of Europe, then those non-Western, 'backward' conditions had to be changed in order to accord with the Western conditions. In this case, it was argued that the experiences of these other countries did not count as a distinct scholarly category from which theories of development could be drawn (Arif 2002). In short, the experiences of the Asian, African and native Americans were regarded as incapable of producing reliable knowledge on their own, but the Western experience, since it was based on a sound scientific-knowledge base, was supposed to be applicable universally because it could be tested and empirically observed in practice.

The impasse of development theory that later came to be acknowledged did not, therefore, spring from its supposed weaknesses, but from the core of the theory itself (Booth 1985). The impasse, according to Booth, arose out of a widespread disillusionment with conventional development and development failures. It also arose out of the crisis and eventual eclipse of socialism as an alternative path, the growing economic diversity of countries within the Third World, the increasing concern with the need for environmental sustainability, the increasing assertiveness of voices from below, and the rise of the post-modern challenge to the universalising theories and conventional practices of development. This then proved that the universalising of Western experience and its application to other societies was in itself a myth and a superstition of a similar nature to those of that Max Weber attributed to traditional societies. The failure proved that what was required was the recognition of the knowledge that existed in other human conditions as constituting a good basis for social transformation and development in their own contexts.

Knowledge production as a form of commodity production

Dead but not buried

However, it is not so simple to dismiss this Western experience out of hand, because it represents a political, military, economic and social system that is increasingly being referred to under different labels and names, such as globalisation, global village or Coca-Cola culture. This is why I began by saying that although development theory is pronounced dead, it is yet to be buried and the effects of its roving ghosts can have fateful consequences. Within these new conceptual and theoretical labels is implied a system of theory that is put under different guises, such as structural adjustment, policy dialogues, humanitarian assistance, pre-emptive intervention and millennium development programmes. There is a line of connection between these new formulations and the previous theories of development. Hence, it is important to comprehend how the system came about and how it operates under conditions of crisis. This gives us an idea of how it continuously manages to frustrate alternative paths of human endeavour and transformation in order to remain dominant and able to manufacture new knowledge.

Extroversion of knowledge production

Paulin Hountondji (2002: 26) has argued that Third World countries, especially in Africa, 'are tied hand and foot to the apron strings of the West [through the] logic of extroversion'. This extroversion, according to him, arose because the European colonisers did not recognise that Africa was capable of developing on its own. According to Basil Davidson (1992), no African peasant society was thought by the European colonisers to have any development potential at all. The modernised African elite also bought the lie and continues to argue, on behalf of the colonisers and on their own behalf, that for Africa to develop it has to emulate the Western experience.

Modernisation, therefore, implied a process of colonisation and this, in turn, implied the need for a theoretically articulated and well-planned strategy of colonisation by a bureaucracy that the previous mercantilist imperialism did not have. This strategy of the 'civilising mission' went straight to the destruction and abolition of existing African religions, philosophies and institutions of governance as well as the economy. In their place, a new system of 'scientific knowledge and modern production' was installed for the purposes of domination.

In the field of knowledge production, it sought to silence local voices for the purposes of exerting control over resources. The process of extroverting knowledge production for the sake of extroverting its resources to the European centres was begun. This is where the resources could be processed and produced as final products. According to Paulin Hountondji (2002), the manner in which that activity was introduced into African colonies by Europe ensured that all knowledge production would be carried out in Europe. Africa was to be used as a 'data collection outpost' of research centres. However, the decisive stage of interpreting that raw data – the theoretical processing of the data – was undertaken elsewhere, in the capitals of Europe:

> [T]he one essential shortcoming of scientific activity in the colonies was the lack of this intermediate stage. We missed the central operation of theory-building. We only had the first and third stages of the process: (i) the data collection, the feverish gathering of all supposed useful information, and (ii) a partial, occasional and limited application of the research outcome to some local issues. The medium stage took place in the so-called 'mother country,' the colonial

> metropolis. The data collection was immediately exported to laboratories or research centres in the ruling countries … for theoretical or experimental processing and interpretation. The colony itself lacked laboratories and other facilities necessary for basic research; it even lacked universities, or, when it had any, they were so poorly developed that they could only promote, at best, the proto-theoretical procedures necessary to enlighten the data-collection process, and the post-theoretical procedures necessary for applied research in its final stages. (Hountondji 2002: 27–8)

Hountondji adds that besides centres in the metropoles, specifically designed for analysing raw data collected from the colonies, there was also the institutional framework of colonial science, which included the whole educational system in the colonies. For example, the University of Dakar in Senegal was created during this period to bring in students from French West Africa, and also from French Equatorial Africa, for the purposes of instruction. This is the same role that Makerere College in Kampala, Uganda, fulfilled for the British colonial powers in Uganda, Kenya and Tanganyika. Thus, right from the word go, the colonial production enterprises were controlled from the centres of metropolitan Europe. Hountondji bemoans the fact that this science and research activity conducted in the colonies was nothing like an endogenous initiative, but this was not its purpose, as he himself points out.

Hountondji points to the three stages in knowledge production and notes that Africa played a part in only two: the first and the third. The first was concerned with data collection, and here the colonies played the role of providing the raw data from primary field investigations on crops and soils. This feverish phase of collecting useful information was crucial for the second phase, from which Africans were excluded. This was the stage of analysis of the raw data. This phase took place in the mother country, and in the Academy, where the data was sent to the laboratories or research centres for theoretical and experimental processing and interpretation, analysis and documentation.

The third phase was limited to the interests of the mother country, but Africa occasionally had the benefit of a partial and limited application of the results of the research to local institutions in the form of training and use in production, but always under the coloniser's control. This, according to Hountondji, produced a 'colonial pact' under which the colonies did not consume what they produced. The products were intended for export to the mother country. Economic activity was 'extroverted' and the African scholars who were socialised in this form of knowledge production were co-opted so that what we call the brain drain today is but an expression of this overall functioning of world scientific endeavour (Hountondji 2002).

Commodity production and knowledge production

Using Louis Althusser's concept of knowledge production as a specific kind of economic commodity production activity, Hountondji also argues that what happened in the area of knowledge production was actually part and parcel of the production of material goods, as well as being in the intellectual and cultural arenas:

> This theoretical vacuum was substantially the same as the industrial vacuum that used to characterise economic activity. Countries under colonial domination served primarily, as we well know, as sources of raw materials and incidentally as new markets for the finished products of the metropolitan industry. The raw materials produced locally through mining and agriculture were exported to be processed in the factories in the ruling country, partly for its own consumption and partly for re-export as finished products. Historians of colonisation call this mode of production the 'Colonial Pact'. (Hountondji 2002: 28)

This entire process was based on the control of knowledge production, both at the centre and at the periphery of the system, which constituted the colonial pact. From the pact arose what Hountondji calls the extroversion of African knowledge production and economic activity. Africa lost the independence to produce its own knowledge to serve its own economy, but this process did not end with the colonial pact. It was introverted and internalised by the African elite in post-colonial Africa who continued the colonial pact in their own interest and that of their former masters. This explains the brain drain and the extroversion of large amounts of funds that are stolen by the African elite to follow the colonial pact, which in turn partly explains Africa's lack of transformation and development. According to some estimates, currently the African political and economic elites have extroverted 40 per cent of African financial wealth to the developed world, while Asia has only 3 per cent of its financial resources outside its countries.

Modernisation and development theories

Political development

Development theory was an aspect of this extroversion and introversion. To be sure, it came clothed with new needs and new demands arising out of the developments in the crisis of colonialism, which included the way the colonial powers were to deal with the crisis of decolonisation. Already in the 1920s, and arising out of the colonial experience, the British imperial power had put in place colonial development programmes intended to orient the colonies to new forms of production to meet the empire's needs after World War I. What came to be subsumed under the theory of political development was in fact a developmental paradigm based on state intervention to promote 'development' and 'nation building' in the colonies. This is what Low and Lonsdale called the 'innovatory paternalism of the second colonial occupation' (1976: 3). According to the two authors, this paradigm had its origin in the great World Depression and the West Indies riots of 1938, which had resulted in the crystallisation of a new set of attitudes to Britain's dependent empire.

This was a new order, which arose out of the struggles of the colonial peoples for independence after World War II, and was not motivated by the need for development of the colonies as such. It was to facilitate a political development in the image of the colonial powers such as democratisation, political mobilisation, secularisation, nation building, administrative and legal development and equality (Leys 1996). These rights had been denied before and they were now being introduced as part of a wider empire reform agenda, which necessitated the importation into the colonies of large numbers of colonial technocrats to manage the change from direct colonialism to a neocolonial order that would continue to extrovert Africa's resources under multilateral imperialism under US hegemony. The strategy was also intended to contain communism and radical nationalism.

There were two other considerations. The first was the conclusion that new 'nations' would require large human and economic investments before they could be considered fit for self-government and independence. The second was that, as far as the British were concerned, there was a belief that as Africans became more 'detribalised', the state would have to assume the social welfare functions formerly performed by the tribal social security systems. It was to this end that the Development and Welfare Act of 1940 was passed by the British Parliament, and through which state investments were made in the colonies in the form of ten-year development plans drawn up by the new class of bureaucrats under the new 'colonial occupation'. The French enacted similar legislation and structures for their own colonies.

This political development propelled by the British and French was soon joined by modernisation theories worked out by a new US modernisation school. These theories also emerged out of the need by the US to extend its influence in the former European colonies. This was, in fact, a third colonial occupation crafted under President Harry Truman's 'Four Point' policy outlined in the International Development Act of 1950, under which the US stipulated that 'foreign assistance' would be one of the cornerstones of US foreign policy to enable the new nations to improve their conditions of living. New schools and disciplines emerged to back up these US foreign policy frameworks in the context of the Cold War, and WW Rostow's (1960) *The Stages of Economic Growth: A Non-Communist Manifesto*, which tried to counterbalance the Marxist five modes of production, was part of the ideological baggage to back up the new approach.

According to Richard Higgot, modernisation arose out of the success of industrial societies in overcoming major economic problems and severe inequalities. This led to a sense in which issues were seen in technical terms and were regarded as being solved with growing technological expertise. They were not viewed as problems of major philosophical or normative implications. All that was needed was to improve the techniques. With victory over fascism in Europe, the liberal democracy project also appeared assured:

> Advanced industrial Western society was established as the good society to which the colonial peoples could be steered by a process of guidance and diffusion. This background is particularly important for the growth of the study of developing countries. It is against such a background that modernisation was seen. (Higgot 1983: 15)

Modernisation was seen as a process of change towards those types of social, economic and political systems that had developed in Western Europe and North America between the seventeenth and nineteenth centuries and then spread to other European countries and, in the nineteenth and twentieth centuries, to the South American, Asian and African continents. Borrowing from the nineteenth-century evolutionary theorists, a scheme was built up based on comparisons of ideal–typical variables of tradition and modernity. The American political science discipline built its modernisation theories on this basis and one of the leading lights in this field, Gabriel Almond, applying behaviourist approaches, improved on the dichotomy created by Max Weber between tradition and modernity by constructing models of traditional and modern forms of society and polity (Higgot 1983: 16; see also Eisenstadt 1966; Almond et al. 1973).

US modernisation theory and social change

Thus, based on this dualistic sociological 'grand theory' of modernity and tradition, the US Social Science Research Council, which promoted the project on comparative politics under Almond's leadership between 1945 and 1963, tried to promote a model based on US liberal democracy and ideology and export it to the rest of the formerly colonised world. The economists tried to develop their own models, such as Rostow's on 'stages of growth', also based on the same evolutionary theories, and other models based on theories of development and the ideology of developmentalism. What was worse was that the Weberian dichotomy between tradition and modernity was based on a false characterisation of tradition as being pre-state, pre-rational and pre-industrial. However, very soon, this false dichotomous approach and characterisation was questioned along with the false optimis of the 1950s on which it was erected. This questioning exposed the false thesis that the transition from tradition to modernity was purely a technical problem. The optimism disappeared with the growing disillusionment over the actual performance of new states in the post-independence period:

> In the mid-1960s it was recognised that simplistic attempts to classify societies in terms of certain pattern variables is unacceptable as a form of analysis. Equally unacceptable was the assumption that the advance from tradition to modernity would be a simple linear progression. (Higgot 1983: 18)

Still, this questioning did not go to the root of the matter about the need to look at 'tradition' as a basis for the non-European countries' own programmes of social transformation. The challengers of the theory, such as Samuel Huntington, instead crafted new theories aimed at creating 'order' and 'stability' for Third World regimes threatened by social upheavals by liberation movements in Asia, Africa and Latin America. The Indo-Chinese war was at its height and the Cuban revolution had just taken place. The objective of Huntington's (1968) *Political Order in Changing Society* was, therefore, to deal with this new situation.

Huntington rejected the notion of political development that was advanced by British orthodoxy. Instead, he advanced a new concept, which he called 'social change', as a controlled process that at the same time would ensure that the new countries did not slide into 'political decay', by which he meant a state of unrest, violence, corruption and military coups. It was a concern for the need for order and stability in the new nations threatened by new anti-colonial movements influenced by socialist ideology. This unrest, in his view, was caused in part by the earlier optimism created by the political development theories, which advocated rapid economic development. This did not happen and, therefore, the correct response to the new situation was to ensure the maintenance of order and stability of the institutions of the new states with liberal-minded leaders, so that they could impose their will on their societies. As Higgot (1983) observed, this was a transition from democracy as a value to order as a value. Even then, he argued, the countries that exhibited a more rapid growth were not politically stable, whereas those with the lowest per capita incomes were more stable.

Thus, modernisation theory dealt a blow to political development theory based on the idea that new African states could develop on a democratic basis. What Huntington suggested became the basis of US government counter-insurgency policy in Indo-China. His solution was to embark on a special form of development based on 'forced-draft urbanisation and modernisation, which rapidly brings the country in question out of the phase in which rural revolutionary movements can hope to generate sufficient strength to come to power' (Huntington 1968: 650). Thus, the modernisation theorists stumbled on a contradictory situation for political development in the new nations, never faced by the earlier European modernisation experience. David Apter pointed out this contradiction when he observed that whereas in the earlier European phase modernisation created activities of an integrative kind by virtue of the need for multiple sources of information and a systems' tendency towards some form of democracy, in the post-modernist period in which the new nations appeared, the tendency, on the contrary, was towards coercion (1968). In this phase, modernisation requires governments to organise and integrate the various sectors of the community instead of this being left to the social process. Apter concluded that:

> If this assumption is correct, the transition to industrialisation requires an exceptionally well organised political system able to maintain a high degree of control. It is because the problem is so complex that I suggest that high control systems are necessary to make the transition to industrialisation. (Apter 1968: 334)

The modernisation theorists of the post-colonial period agreed on one thing – democracy was incompatible with post-modernist economic development. Authoritarian rule was needed to speed up industrialisation and, thereafter, according to Apter, there would be a need for greater decentralisation of high control systems. What was required was a controlled and 'forced-draft urbanisation and modernisation' that would ensure order and stability in the new states. This implied authoritarian rule, which became characteristic of the US drive against communism in the Third World countries where military dictators were backed so long as they defended 'freedom' made in America.

Under these conditions, it is not surprising that in the post-structural-adjustment period, reliance on economic globalisation has been placed in the hands of the so-called 'new breed' of leaders such as those in power in Uganda, Ethiopia, Rwanda and elsewhere. They can run one-party states under different guises without being challenged by the West because they stand for order and stability in their countries, which foreign direct investment needs for the economic globalisation process to succeed. So long as these leaders pursue 'modernisation' under the new conditions of globalisation, they are rewarded by the multilateral institutions and the donor community in general. This is why authoritarian rule seems to be a necessary consequence of later capitalism.

Policy dialogue and structural development

Reform without development theory

Faced with the failure of the development programmes advocated by the donor community, the World Bank and the International Monetary Fund (IMF), the two multilateral institutions, published a number of reports in the early-to-mid 1990s in which they advised governments to begin to reform and eventually to restructure their economies and institutions according to new prescriptions. The first strategy they adopted was what they called 'policy dialogue', which meant a new orientation in the economic policies of African governments towards free markets. Under the new approach and in this new direction, they encouraged the production of cash crops for export in the hope that this strategy would enable African countries to increase their foreign exchange earnings to repay their growing external debts; but the terms of trade increasingly worsened for the African countries, partly because monopoly pricing of industrial products undermined the purchasing power of Africa's agricultural exporters.

These adverse terms of trade resulted in a fall in Africa's capability to purchase foreign goods and services for their projected development. Between 1973 and 1981, low-income African countries lost as much as 23 per cent of their purchasing power through low prices paid for their primary products. This performance fell further to the lowest post-war level in 1982 and subsequent years. This worsening economic situation became a further basis for the World Bank to exert pressure on African governments to engage in 'policy reform'.

Under pressure from the Reagan administration to force a restructuring of the Third World, the Bank pushed through a series of policies that were contained in the five major reports on Africa referred to earlier. These reports introduced new forms of control of African economies by encouraging them to engage in 'policy dialogue', which the Bank began to use to get African governments to revise their policies in the new direction. In its annual report for 1980, the Bank pointed out that whereas its old approach was based on short-term, crises-oriented projects, the new approach was to be more far-reaching and long-term, but with the purpose of bringing about structural reforms. A new loan scheme called 'Structural Adjustment Lending' was used to encourage this 'dialogue'.

In 1979 the IMF reinforced the World Bank's policy dialogue through its own economic stabilisation programmes, assisted by the new 'facilities' it created for this purpose. The IMF conditionality came in as part of this package as a bait to encourage the 'policy reform dialogue' strategy among weak economic states. In fact, the ground was being laid for the economic globalisation of the African economies under a neo-liberal ideology of structural adjustment. The IMF conditionalities were handed down through 'standby arrangements' that were based on a 'stabilisation programme' and 'hand-to-mouth' tactics. In this way, and applying the inbuilt control mechanisms, which ensured that African countries not merely promised to carry out adjustments, but actually did so before they were given further handouts for the stabilisation programme, the multilateral institutions were able to arm-twist these governments into submission. The real objective was not only to control Third World economies in the direction of globalisation, but also to directly manage them.

The convergence of the two policy instruments imposed by these two multilateral institutions was used effectively by the US under its Baker Plan to resist any debt cancellation demands by the African and other Third World governments. The plan called for disbursing US$29 billion in new loans to a selected number of 'least developed countries', of which Africa had a high proportion. Of this amount, US$20 billion was to come from commercial banks and US$9 billion from the World Bank and the IMF. The loans required that the recipient nations adopt free-market economic policies, stem corruption and capital flight, and encourage greater domestic savings and investment. These multilateral demands did not reflect any scientific theory, but were policy demands imposed by the donor community.

Faced with the failure of all the blueprints of the multilateral institutions in 1989, the World Bank sought to provide a more comprehensive theoretical and ideological position to further propel the process, alongside the failed political development, into a more authoritarian mould. In its more professional and less polemical report, *From Crisis to Sustainable Growth* (IBRD 1989), the Bank developed what Beckman (1992: 83) correctly called 'a political theory of adjustment'. The new report adopted a broader outlook by raising social, political and cultural issues in seeking ways to resolve the crisis.

Indeed, the very objective of the World Bank was to try to reorganise the African economies as well as downsize the role of the African state and create conditions for the emergence of a new breed of African leaders who would push through the new reforms without questions being asked. If we may borrow from Low and Lonsdale's (1976) concept of the second colonial occupation, the period was a new stage in the reorganisation of the African state towards the third colonial occupation. This was necessary in order to bring these states in line with the new globalising order. Unlike the earlier occupation, the new one took the form of privatisation and liberalisation of the economies, with a new team of technocrats in the form of consultants and high-flying MBA financial wizards. This had the effect of creating a new colonial invasion, without much foreign capital, taking over former state enterprise, since the liberalisation and privatisation of former state enterprises could be had for a song. In the words of Beckman (1992: 83):

> The new focus of the World Bank is on the restructuring of the African state in order to make it supportive of its long-term strategy for the liberation of the market forces and entrepreneurial potentials of African society. The report explains the failure of the state and the need to cut it down to size, thereby releasing the creative forces that have suffered under its oppressive dead weight.

The rationale of the third colonial occupation was logical enough. Apart from the new economic and technological forces that were compelling the breaking down of national frontiers in terms of financial movements, trade flows and production strategies, the African nation-state was a real deadweight against these new developments and its own population. Basil Davidson (1992) had correctly characterised this state of affairs and the role of the African nation-state in it as a curse afflicting the African people.

As noted earlier, the second colonial occupation sought to do away with the old colonial policy; liberating the state from the policies of native authority and indirect rule based on the intermediary role of traditional chiefs. The colonial powers sought to reform that system in order to bring in new democratic institutions of representation in order to hasten 'economic and political development' on the basis of state capitalism. Now, the third colonial occupation wanted to downsize that state, 'release the economic potential of the people' in order to 'liberate the market forces' by empowering civil society, especially at the grassroots in rural areas, and 'liberate national market forces' from the shackles of that state.

The third colonial occupation sought further to de-legitimise nationalism and the nation-building project that had been initiated by late British, and to some extent French, colonial policy. Instead, the third colonial occupation put in place a neo-liberal ideology, which idealised the freedom of market forces *vis-à-vis* the economic role of the post-colonial state. By so doing, it also sought to de-legitimise institutions of popular resistance against imperialism and neocolonialism as well as destroy the political achievements of the African people in their earlier resistance against colonialism. It was a form of revisionist history that wanted to restore the glory of colonial dependency under new conditions by highlighting the glory of the free market.

This is why it declared that behind the litany of Africa's development problems was a crisis of governance. It saw the failure of public institutions as a root cause of Africa's weak economic performance. The Bank's new missionaries pronounced that the quality of government had deteriorated with bureaucratic obstruction, pervasive rent seeking, weak judicial systems and arbitrary decision-making. The new analysis said that the red tape and corruption pervading the state had imposed heavy costs on the private sector, thereby undercutting its international competitiveness. The breakdown of the judicial system had also scared off foreign investors who fear that contracts cannot be enforced. The contracts became a new god. Moreover, structural adjustment programmes, according to the Bank, could not work without a well-functioning state system. Therefore, a new political theory of the state was essential.

The Bank could not correctly trace the origins and root cause of these problems. Instead, it blamed the first generation of African political leaders for distrusting foreign business and investment. It also declared that the new states were poorly rooted in African society, but it did not explain which forces were responsible for this development. Here, in fact, was the root of the African crisis. The demonstrative effect of consumption by these leaders, which the report criticised, was also not properly explained. It even blamed these leaders for couching their political vision in the idiom of Northern values, institutions and technology, as if these were not the very parameters the leaders were expected to imbue under modernisation theories and paradigms.

Therefore, the Bank blamed the leaders for adopting poor foreign models for their development programmes, when the Bank was the very institution responsible for such models. The Bank finally blamed the leaders for a kind of thinking that was dominated by the dichotomy between capitalist and socialist development models, when the majority of them had followed the capitalist models. In any case, the leaders did not advocate the statist approach to development. As we have seen, it was the Keynesian theories of development and the British-propelled political development approaches that were behind the second colonial occupation.

Based on these wrong analyses, the Bank (IBRD 1989: 37–5, 55) again points to wrong conclusions, which were supposed to guide African leaders. These guidelines did not seek to root the new ideas in African societies based on their cultures and value systems. Rather, the Bank implored the leaders to abide by the worldwide trend towards privatisation, another wrong Northern model. Thus, the World Bank, in developing a *political theory of adjustment*, wanted to de-legitimise nationalism and the nation-building project of the second colonial occupation and put in its place a new theory of colonial occupation. It was also intended to develop new agencies for this stage, apart from the consultants and financial wizards. These new agencies were new civic organisations. The old civic organisations such as trade unions were attacked as having encouraged statist development.

Good governance and civil society

In place of democracy, the Bank now theorised the concept of 'good governance', but this concept carried a different meaning. Private sector initiative and market mechanisms were now required to go hand in hand with good governance by governments, mediated by intermediaries such as civic societies and NGOs. These institutions could create a link both upward and downward in society and voice local concerns more effectively than grassroots institutions, which tend to be localised. It was in the same spirit that corruption of the leadership could be combated, argued the Bank. The Bank did not correctly locate the sources of the power of corruption as lying within the structural adjustment policies. As we have seen, the Bank connected corruption with the tendencies towards patronage and the maintenance of power, but this is the effect of undemocratic power rather than its cause, for it is a modern political truism that undemocratic power corrupts and absolute power corrupts absolutely.

The positions the Bank was now advancing tended to reinforce authoritarian rule in Africa and not good governance as it claimed. The retreat of the state was based on the idea that the same state and its political agents should legislate to advance economic globalisation, and this could only be done with the existence of 'strong leaders'. In short, it was not the state, as such, that was to be downsized, but particular types of activity. The state was now argued to support 'liberalisation' and 'privatisation'. Moreover, 'strong leaders' meant the emergence of the new breed of military-cum-democratically elected leaders who would be powerful enough to push through the new orthodoxy.

In this way, the Bank took political and ideological sides in the contending political struggles between the neo-liberal free-market ideology and the nationalist ideology and aspirations for the implementation of the social agenda for which nationalism stood. That is why the empowerment of the new order is counterpoised to what the Bank calls the vested interests of the old order, which benefited from the state intervention in the economy.

In fact, these ideological positions of the World Bank were adopted from the modernisation ideas of the past. According to Gibbon, Bangura and Ofstad (1992), there were two perspectives that US political scientists and the UNICEF in this period were pursuing. These political scientists were trying to update the theory of modernisation by working on issues of rural and agrarian crisis in the Third World. They used neo-liberal public choice and political economy theories and frameworks of analysis to achieve their new explanations.

Their main concern was with the way power was obtained and distributed in post-colonial Africa, which had adversely affected agriculture and rural incomes. It was the research of these political science scholars that gave impetus to the argument of the urban bias of early African political classes. It was argued that rural poverty was the result of discriminatory trade and pricing policies in the 1960s and 1980s, during which the peasants had suffered a raw deal because they were not represented in the urban political coalitions.

The first of these perspectives was the 'public choice' theory, which tried to analyse the distribution of 'gains and losses' among competing social groups in economic terms. The concepts of 'gainers and losers' were derived from the types of commodity that individuals produced and consumed – although these were, in fact, historically and culturally determined – and the nature of factor mobility between different sectors of the economy and the way the commodities were distributed. This was done in a closed market that had no adverse linkages globally. The dangerous conclusion or assumption derived from this kind of political, economistic analysis was that it regarded those who gained as the 'good winners' and those who lost as the 'bad losers'.

The real problem was that the new modernising theorists wanted the gainers to be defended by the state against the losers. This is what led the World Bank to adopt the functionalist and technocratic political agenda that led to the shift in the balance of social forces in favour of the new coalitions of gainers who were expected to sustain the reform programme (Gibbon et al. 1992).

The second new orthodox political science perspective was advanced by a group of political scientists who looked at the emergent informal sector as the means for the strengthening of civil society and democracy. Chazan (1988: 130) saw in these informal activities the survival of democratic tradition that was 'ensconced in local political cultures'. He saw in this development the emergence of 'alternative institutions and patterns of interactions separate from those that have developed in the formal arena'.

This one-sided point of view, although containing strong elements of truth, gave the impression that these 'alternative' structures were essentially liberating, which could lead to the local autonomy of civil society. These kinds of arguments were cashed in on by the World Bank in its 1989 report where it asserted that modernisation theories in the early years of independence tended to make a rigid distinction between modern (Western) societies and pre-modern or (traditional) societies. According to the Bank, this approach 'led to many mistakes, especially in land reform, livestock projects, consolidation of rural populations, and integrated rural development' (IBRD 1989: 60).

The Bank advocated the recognition of future development strategies that, far from impeding development, could be supported by indigenous African values and institutions. It argued that while the modern sector had been in depression, the informal sector, strongly rooted in the community, had been vibrant. In particular, according to the Bank, it had shown a capacity to respond flexibly to changing circumstances. This was another populist overstatement that did not fully comprehend the problems of the informal sector, which were basically survival activities of the poor communities. These could only develop into alternative models of local economy if they were left unmolested by the modern sector. The Bank argued that the modern sector should support the traditional sector, instead of seeking to replace it but, at the same time, it stated:

> In some spheres, however, there can be no compromise. The family and ethnic ties that strengthen communal action have no place in central government agencies, where staff must be selected on merit and where public and private monies must not be confused. (IBRD 1989: 60)

This was the crux of the matter, because it showed that the Bank, just like the old colonialists, could not accept traditional structures being the agents of change and social transformation. The Bank still drew a distinction, despite its earlier pretensions, between modernity and tradition and wanted the former to prevail. It did this although it advocated that traditions were good for change. In many ways, the radical nationalist leaders in the early years of independence had adopted the same attitude towards traditional structures and institutions.

The criminalisation of the African developmental state

Since the 1990s, there has emerged a new state of despondency that seeks to locate the African developmental crisis within African cultures and the long *durée* of African history. The new 'Africanist' concern is agonising over how the African crisis can be explained from a new paradigm in order to reveal how Africa works (Chabal & Daloz 1999). However, the discourse is one of despair and no new ideas, which can even understand the roots of the crisis, are forthcoming from that new paradigm. We are presented with some exotic theories advanced by the French Africanists, such as the 'politics of the belly' mechanistically drawn from an African proverb to constitute a basis for explaining the crisis of the state in Africa.

In talking about the 'paradigm of the yoke' to explain how Europe tried to destroy Africa's historicity, Bayart (1993) fails to come to the real conditions of the African crisis. He points out that Western anthropology has continued to occupy the prime position in the study of Africa, and despite the immense progress made by the Africanist historians to put Africa on the world map of knowledge, the study of Africa, by and large, has yet to be fully integrated into contemporary political studies. In short, even the attempt to understand the African past and its history and society through its own epistemology has proved abortive; the Africanist attempt has always proved fruitless, rendering Africa still a continent in the dark as far as their knowledge of it is concerned. In his own attempt to understand the African post-colonial state, Bayart and his team of Africanists have swung with the pendulum in order to understand Africa as it (really) is and attempt to create new paradigms to explain the present predicament into which Africa has fallen, as they see it on the surface.

From this Africanist standpoint, Africa is said to have failed to pass the test of civilisation because Africans themselves appear to be the problem. For example, in trying to explain the state in former Zaire, Bayart argues that the failure of political development in Zaire was due to the fact that Mobutu built up a kleptocracy based on 'politics of the belly', in which all the social struggles that make up the quest for hegemony and the production of the state 'bear the hallmarks of the rush for spoils in which all actors – rich and poor – participate in the world of the network' (Bayart 1993: 235). He does not explain how Mobutu was able to play this role while at the same time being an agent of US domination in Africa. If Africa is, therefore, a 'failed' continent then their own theorising is what leads them to that conclusion.

With this failure, there appears to be no room for the well-meaning and paternalistic Africanists to try and put Africa back on the map, because to do so would require a completely new epistemology for understanding Africans and their ways of survival. Such attempts, which they continue to market for their own intellectual survival, like seeing the African post-colonial state as a 'rhizome state' and a 'felonious' and 'criminal state' (Bayart, Ellis & Hibou 1999), do not take Africa any further than the anthropologists and developmentalists did in the past.

It follows that Cheick Anta Diop (1974) was correct after all when he challenged Africans to be at the forefront of the writing of their history, starting with ancient Egypt. To undertake such a gigantic task, and it must be undertaken, African scholars will have to purge themselves of the infection of Eurocentricism (which has continued to claim the right to know Africa) if Africa is to be retrieved from the Curse of Ham.

Knowledge production and emancipatory practice

For the crisis of Africa to be tackled, the European and now joint Western grip on the continent must be brought to an end. To achieve this, the African people must be brought to the centre of their own transformation through their own perceptions of the path and direction of that transformation. Africa must reclaim the right to its own knowledge production, self-direction and self-determination. The call by President Mbeki of South Africa for an African Renaissance will be meaningless unless this right to self-knowledge and self-determination is reclaimed, and this cannot be done until the African intelligentsia move in the direction of emboldening people to chart such a path along with the African masses. Knowledge production and knowledge generation cannot be undertaken without an African epistemological foundation. We must stop that process whereby the collective memory of imperialism is perpetuated through the ways in which knowledge about the indigenous peoples was collected, classified, and then presented in various ways back to the West, and then, through the eyes of the West, back to those who had been colonized (Smith 1999). To do this, we must, as African scholars, look at Africa through our collective eyes and world view together with the African masses. This implies developing an African epistemology through which we can sharpen our own self-perception and that of others.

Therefore, in seeking to do research in African communities, we must avoid doing those things that will immediately alienate us as researchers from the communities in which we work. This means that we must take into account certain ethical dos and don'ts that will vary from place to place; hence, the first thing to do before going into a particular community is to familiarise ourselves with the community, the cultural sensitivities and short histories, which must be taken into account as one enters into intersubjective communication with them.

Firstly, the researcher must acknowledge the contextual validity of African knowledge and wisdom, and respect the uniqueness of its contributions to knowledge production and practice through the centuries. This also means we must adopt a different epistemology for accessing and comprehending it as a basis for utilising the expertise and skills in it for human transformation.

Secondly, as scholars, we should avoid using concepts and theories that are alien to the situation in African cultural contexts. Academic analyses based on abstract theories and concepts, common among scholars who carry out research as their main profession, are counterproductive. In the real world of African communities, people are able to constitute their first-order understandings of their social worlds through their own reflexivity, cognition and action. However, these first-order understandings have no logical or necessary connection to the second-order analyses, which researchers and analysts construct and which they call 'scientific knowledge'. Community first-order understandings may sometimes include, but are by no means dominated by, abstract reasoning strategies like those used by scholars and analysts. Therefore, the analyst's second-order understandings sometimes lead to a systematic misrepresentation of the concrete ways in which people create knowledge and engage in action within their first-order worlds.

Thirdly, in order to escape this vicious circle, researchers should make every effort to understand how people go about understanding and creating their own meanings and life-worlds in their own cultural contexts and lived experiences. One guideline to help to localise research in the communities is to treat research not merely as an intellectual activity as understood in academia, but as a joint effort between the scholar and the communities mediated through their own languages. This will enable the scholar and researcher to discover their lived truths. The arrogance scholars adopt in this respect, or what Pierre Bourdieu called the 'illusion of the omnipotence of thought' is, in his words, a 'dangerous delusion', which confuses academic analyses with social change and may lead some scholars to believe that one can change the world by merely changing words (Bourdieu 1977). This falsehood also leads scholars into a further illusion of believing that by subverting terms, categories and discourses it is possible to subvert or dent objective structures of existing systems of domination and power relations. One hallmark of such scholastic attitude is that it encourages the pursuit of academic activities as ends in themselves, leading the scholar to engage in endless research upon research rather than working with communities to explore community understandings and meanings upon which community and local actions for meaningful social transformation can take place.

Fourthly, research and knowledge production in African communities should seek to embolden and empower the marginalised African masses. Therefore, methods of research should aim at generating or validating existing practical and emancipatory knowledge about the forces that impact on the 'life chances' of the masses according to their own understandings. Furthermore, the understanding generated from this exercise should act as a guide to enable us to describe and analyse the empirical reality identified from the data gathered through those methods. This will assist us to gather testable hypotheses operationalising the variables obtained so that those variables can be tested empirically. In this case, practical knowledge, according to Kershaw (1998: 29), 'helps to generate new concepts, variables and ultimately Afrocentric theories which are grounded in the attitudes, behaviours, and historical relationships of the people being studied'. Most importantly, this method enables us to identify from the data obtained apparent *contradictions as well as convergences* of the communities' first-order understandings and their 'objective' reality. When a convergence occurs, validity results, but where it does not, further inquiry is held until convergence is obtained or a theory found to explain the contradiction.

Fifthly, in order to move forward the resultant technical, practical and emancipatory knowledge and make it contribute to the existing body of knowledge through its utilisation and critique, the scholar should be conscious of the relationships between theory and practice. The researcher should participate in a programme of education and action with the communities by presenting and disseminating the findings and the new knowledge produced to them in a culturally appropriate manner in order to enable them to identify contradictions in the findings so that they can take action to rectify the situation. Actions should particularly aim at emancipating the African masses as a step towards humanising the whole world, because by asserting their own humanness through struggle and action they can make a contribution to the emergence of a better world based on the humanistic African philosophy of *Ubuntu*. This implies developing dialogical relationships between the scholars and the researched communities. In this way, as noted earlier, the researcher participates, on an equal basis, in the discussion in the community and, where necessary, in activities aimed at changing existing oppressive relationships.

Sixthly, in going further to utilise the results of the research, it is vital that the scholar/researcher discusses with the community *the use* to which the product is intended be put. If the scholar wishes to publish the results and/or put them to productive use as an innovation, then the scholar should realise that the community has joint intellectual property rights to it in the form of copyrights, trademarks and/or patent rights. The scholar/researcher should explain these rights to them so their interests are protected and compensatory arrangements concluded with them. The knowledge product from the community is a joint/collective property of the researcher and the community. This approach will dispose of the prejudice held by the Eurocentric viewpoint that African cultures are an impediment, detrimental and/or opposed to development, since, in this case, the social transformation will result from knowledge production in which they were recognised and respected as subjects rather than objects to be 'known' and then 'developed' through a civilising mission.

Conclusion

This chapter began with the proposition that although development theory can be declared to be dead, it is at the same time true to say that it is yet to be buried. Hence, we need to be awake to its continuing influence and reproduction in global policies affecting countries of the South. The oppressed and marginalised communities must seek to reassert their power over the production of knowledge that the imperialists suppressed in order to impose their own world view over them and, through such imposition, to control and exploit them. In so doing, they built power biases that continue to affect the relations between these former imperialist powers and the oppressed peoples of the South, including the elite.

Secondly, we have to recognise the historical roots of phenomena in their societal contexts. This enables the scholar to reveal a phenomenon's bases, roots and evolutionary stages, enabling the best possible understanding of it; for no human phenomenon or ideological theory exists unexpectedly or without precedent (Arif 2002).

Thirdly, we have to deal with the phenomenon under study or research in the light of its environment and societal patterns. Economic, social, cultural and political phenomena do not exist in a vacuum; they constitute part and parcel of an existing and extended social texture, affecting it and being affected by it. Our role is two-dimensional – to define the environment or the social pattern of the phenomenon, and to define the effects of the environment on the phenomenon. This is vitally important in post-colonial and post-traditional situations that characterise our existence in Africa today.

Finally, it should be realised that these cultural biases that are built into the power relations that block people's self-transformation are tied to systems of domination and exploitation, which are ideologised as 'universal' or 'scientific' knowledge. The best way to neutralise these biases is to approach each community as unique, with its own existential experiences. This requires that we must recognise that people's physical and spiritual bearings are the first orders of dealing with their realities through their eschatological world, which explores their metaphysical dimensions of life that are reflected in their statements, concepts and constituents (Arif 2002).

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Section 2
Macroeconomic balance and microeconomic reform

4 Reflections on South Africa's first wave of economic reforms

Rashad Cassim

Introduction

This chapter looks at economic reform against the backdrop of lower employment and increasing skills intensity in the economy, and a consistently high level of inequality. By and large, there have been marginal improvements in interracial equality in South Africa but, in general, inequality has remained consistently high. Two fundamental factors contribute to poverty and inequality – firstly, large numbers of people, specifically in the informal sector of South Africa, who earn well below the breadline and, secondly, a significant number of unemployed people with no income whatsoever. The objective of economic reform, ultimately, is to turn these statistics around. Thus, the ultimate test of reform is the impact it has on the poorest segments of society. The problem, however, is that policy changes could have an adverse effect on income distribution and poverty in the short to medium term.

While the chapter attempts to grapple with the rationale and significance of economic reform in South Africa in the last decade, it is important to bear in mind that the concept of economic reform is an all-encompassing term, which has a variety of elements that may be difficult to capture in one coherent analysis. Consequently, a few important areas of economic reform that have the potential to significantly affect the economy, primarily from an efficiency point of view, are highlighted. Indeed, introducing efficiency-enhancing policies in an economy with high levels of inequality and poverty lies at the core of the post-apartheid economic reform dilemma.

Notwithstanding the narrowing down of focus, the chapter is still characterised by breadth of coverage, often at the cost of not being able to probe more deeply into one particular kind of reform process. Such an attempt to cover a wide range of policies in order to assess the overall experience of economic reform over a specific time period is bound to be anecdotal in parts and perhaps more probing in other aspects.

There are various ways of looking at South Africa's reform process. One could ask what the major factors are that drove the reform process in the last ten years. Typically, if one surveys the international literature, short-run stabilisation problems (such as growing macroeconomic instability, external pressure, balance of payments crisis and exchange rate volatility), rather than long-run structural problems (such as inequality and sustained low growth), provide the major catalyst to reform.[1] The rationale for economic reform in South Africa, however, is easy to understand in some respects. There was simply the birth of a new democratic government with a completely different objective function to its predecessors as it was confronted with the dual challenge of low growth and massive, racially configured inequality and poverty.

In one sense, there is consensus as to how we may define the first wave of economic reforms in the last ten years in South Africa. It can be characterised as a pro-growth strategy entailing fiscal prudence, trade reform and public-sector reform with the aim of creating a more market-friendly, efficient economy. What is more controversial is the extent to which this reform was pro-poor or not. A standard criticism levelled against the government is that the reform path chosen may have induced modest growth in the economy, but at a high cost to employment creation. A counter-argument is that the pace of reform was too slow, leading to a limited impact on investment and high growth rates that would have begun to significantly affect poverty, on the assumption that high growth rates ought to have some trickle-down effects. Is this a fair assessment? This chapter will attempt to confront some of these hard issues.

Economic reform in South Africa: background, context and rationale

The democratic government has carried out various policies and has re-prioritised resources in the economy, through changing policy incentives, as well as changing budget priorities. It is important to bear in mind that post-apartheid South Africa was characterised by the process of dismantling a myriad of policies that contained very specific distributional privileges for a white minority (see Klaasen 2002). Moreover, these old policies evolved in a less constrained fiscal and political environment. In the past, the high revenue generated by mineral wealth (coupled with limited expenditure on and investment in human capital, for example) for a small segment of the population allowed the economy to sustain itself with the presence of major distortions, such as excessive protection in some parts of the economy, distorted capital markets as a result of the provision of loans at high negative real interest rates, and the allocation of resources to inefficient state-owned companies. What is striking is that for the period 1970–1993 the average annual export/output ratio was close to 100 per cent for the primary export sector and 17.5 per cent for the secondary sector (UNDP 2003: 180).

The African National Congress (ANC) government identified the need to introduce reform that was aimed at inducing greater efficiency in an economy that suffered not only massive unemployment and inequality, but also a specific history of racial discrimination that emphasised the racial character of inequality. As a backdrop to this overwhelming legacy, the South African economy has experienced an average annual growth of about 2.3 per cent in real terms over the last ten years. In spite of an investor-friendly macro policy, the economy is characterised by extremely low levels of investment, and an increase in output that has resulted in a less than proportionate increase in employment. Dealing with these challenges has led to a strong shift in focus from macro stability to micro reforms, and specifically to product markets, factor markets, services and the overall effects of regulation on various sectors of the economy as a whole.

The recognition of the need to deal with major inefficiencies in the economy manifests in a range of reform initiatives, specifically at the microeconomic level. These include trade reform, domestic reform (competition policy), the reform of services or utilities evinced through privatisation or market structure changes, as well as social reforms that are quite critical to economic development, such as public-sector reform, education and health. However, this chapter will focus on some of the more direct economic policy levers aimed at inducing more efficiency in the economy, while giving consideration to redistributive issues.

A focus on a few policy levers in itself places severe limitations on the way we measure their impact. Hence, we need to be extremely cautious about the way we assess this limited set of reforms. Here, the focus will be on a set of reforms that accounts for a substantial part of the overall reforms necessary to induce significant levels of efficiency into the economy. A large part of this chapter is about the efficiency to enhance competitiveness for long-run growth. Many of the reforms reviewed are inherently efficiency enhancing, with their impact on welfare largely undefined. Admittedly, to have efficiency itself as a major objective is meaningless.[2] It is important from the outset to understand what the basis of any assessment of reform is all about. For example, if economic reform in South Africa achieved a massive reduction in inequality and the incidence of poverty, then there would be less of a sceptical view of the current reform path. However, under the circumstances, there is understandably a widespread concern as to whether the current reform strategy is capable of moving the economy on to a new equilibrium.

The performance of the South African economy in the last decade is well known. It is a familiar story of low growth, low investment and static or moderate growth in employment. So how can we characterise the South African economy ten years after democracy? On a steady-state low-level equilibrium? Is it in adjustment and/or transitional mode, with more promising future prospects? Defining these parameters will critically influence our assessment of the strengths and weaknesses of the reform processes.

If we had the luxury of turning back the clock to 1994, would we have done things differently on the policy front? For example, if we had an economy with consistently low real interest rates, higher fiscal deficits and a stable, competitive exchange rate, would the economy today look considerably different to what it is now? Or if we maintained high tariffs or protection, would we have secured more jobs than is the case currently? Indeed, these counterfactuals are hard to answer, but it may be useful to bear these questions in mind when reading the chapter. We do not take on macroeconomic policy issues here, but operate on the assumption that whatever direction fiscal policy may have taken, it is hard to imagine an economy experiencing sustained growth if supply-side structural problems in the economy persist.

State of the economy and changing structural composition

Before embarking on an analysis of the various elements of reform, it is important to review trends in the economy and identify some key challenges we faced. Over the entire ten-year period, growth averaged a steady level of 2.3 per cent per annum, while the population growth for the same period was above 2.0 per cent, implying stagnant living standards. On the aggregate production side (see Table 4.1), it is evident that major growth over the period came from the services sector and to a lesser extent the manufacturing sector, while the primary sector has largely contracted.

Table 4.1 Average annual percentage growth in value added, 1991–2003 (1995 constant prices)

Sector	1991–1996 (%)	1997–2003 (%)
Primary sector	–0.2	0.1
Manufacturing	1.7	2.3
Tertiary sector	2.5	3.3
Total	1.1	2.3

Source: TIPS 2004

The broad category 'services' is not only the fastest-growing sector but is also the largest sector, contributing significantly (65 per cent) to major economic activity. Hence, a large part of the growth in output that has occurred can be attributed to the services sector. This has important implications for the future growth potential of the South African economy, and reflects the longer-term trend of South Africa's increased reliance on services as a source of economic activity, relative to the historic reliance on primary and, to a lesser extent, manufacturing production.

One of the major constraints inhibiting a sustained increase in production in any economy relates to investment. On this score, the lack of an appreciable increase in productive investment expenditure (both local and foreign) during the period is particularly perturbing. Gross Investment Expenditure, which had averaged about 25 per cent of GDP at the beginning of the 1980s, fell to under 16 per cent over the last ten years. As we can see from Table 4.2, services accounted for a large part of total gross fixed capital formation in 1994 and 2003.

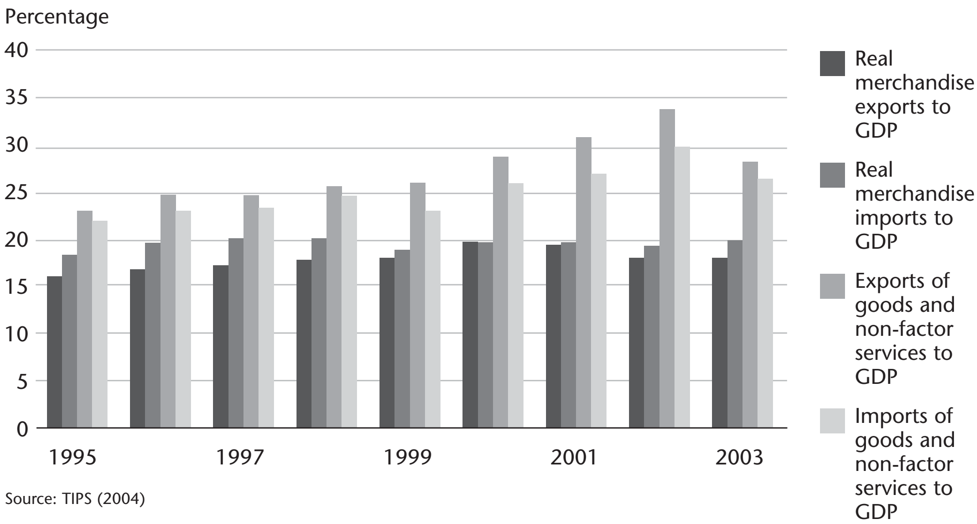
While fixed investment has been growing slowly, consumer demand has been adversely affected by poor income growth. Apart from domestic demand contraction, output and demand parameters in the domestic economy have been increasingly influenced by the sum of exports and imports. As a relatively small economy by global standards, South Africa is heavily traded, with exports and imports of goods and services constituting close to 60 per cent of GDP. As we can see in Figure 4.1, with more substantive trade liberalisation, the importance of exports and imports has gradually increased over the years.

Table 4.2 Gross fixed capital formation as a proportion of gross domestic fixed investment, R million (1995 constant prices)

Economic activity	1994	2003	Change
Agriculture, forestry and fishing	4.0	2.8	–1.2
Mining and quarrying	9.0	11.7	2.7
Manufacturing	23.0	23.0	0
Electricity, gas and water	7.4	4.0	–3.4
Construction	1.1	1.1	0
Wholesale and retail trade	6.5	6.9	0.4
Transport, storage and communication	11.0	15.2	4.2
Financial intermediation, insurance, etc.	23.7	22.0	–1.7
Community, social and personal services	14.2	13.1	–1.1
Total (R million)	78 653	114 006	

Source: SARB (2004)

Figure 4.1 Export/import to GDP ratios

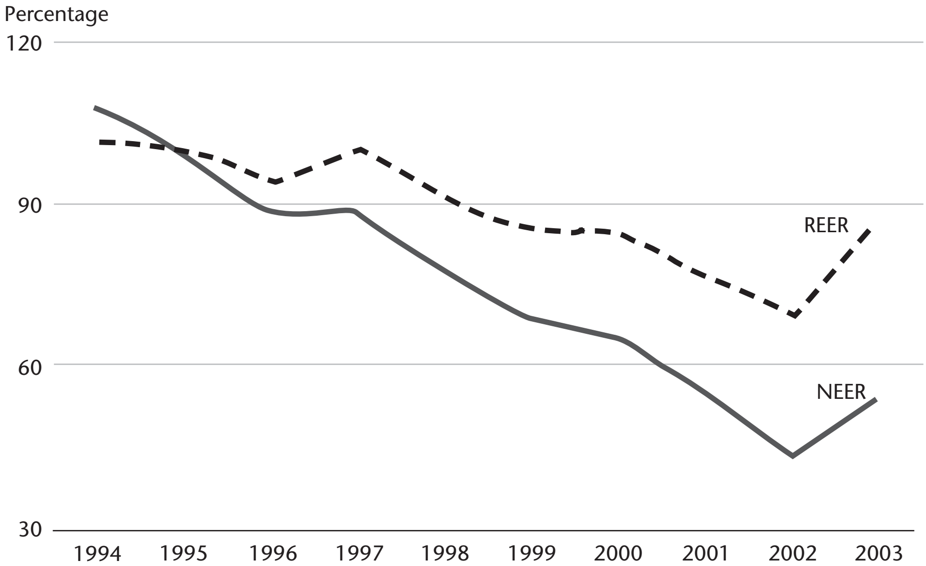


Source: TIPS (2004)

Several factors determine import and export behaviour, including the trade regime, the exchange rate and domestic/global demand trends. As far as the exchange rate is concerned, the impact of a steadily depreciating rand until 2002 had a very positive effect on export earnings and substantially fuelled some of the growth during the earlier period. However, the appreciation of the rand during 2003 and 2004 had a negative effect on some export-producing sectors and was responsible for the slowdown in production during 2003. This poses considerable difficulties for a sustained export strategy. Exports can play a critical role in enhancing growth, specifically in an economy where the domestic market is relatively small.

The exchange rate is a critical determinant to export success, particularly in the case of manufactured goods. Having suffered the effects of an overvalued exchange rate for several years, there was a consistent depreciation of both the nominal and real effective exchange rates in South Africa throughout the 1990s, with an average annual depreciation of about 3.0 per cent for the real effective exchange rate, and about 7.0 per cent for the nominal effective exchange rate (see Figure 4.2). However, there was an appreciation in 1997 and more recently in 2003 and 2004. These appreciations have an extremely adverse effect on exports. It is pertinent to note that a sustained depreciation of the currency over the long run was relatively important to South Africa in developing a sustained export base.

Figure 4.2 Nominal and real effective exchange rates, 1994–2003 (1995=100)



Source: SARB (2000, 2003, 2004)

Note: REER = real effective exchange rate; NEER = nominal effective exchange rate

As far as trends in exports and imports are concerned, we can see from Table 4.3 that there has been a consistent alignment in trends. Average export growth in both manufacturing and agriculture grew considerably from the 1990s in real terms. Ironically, imports followed a similar trajectory to that of exports.

What is striking about the data in the table is that although export growth was less spectacular in manufacturing in the latter part of the 1990s up to 2003 than it was in the early 1990s, export growth rates exceeded import growth rates in the more recent period. While the trend in the ratio of agricultural export growth rates relative to import growth rates was positive during both periods, this ratio increased markedly in the more recent period.

Table 4.3 Annual average growth rate of exports and imports (1996 constant prices)

	1991–1996		1997–2003	
Sector	**Exports**	**Imports**	**Exports**	**Imports**
Agriculture	17.3	12.5	5.4	1.7
Mining	–0.5	5.0	–2.1	4.6
Manufacturing	10.5	13.8	4.4	2.2
Total	9.0	10.0	2.6	3.0

Source: TIPS (2004)

The sector that stands out as far as disappointing performance is concerned is the mining sector. This sector experienced continually negative growth rates in exports, from an average annual decline of –0.5 between 1991 and 1996, to –2.1 between 1997 and 2003. The simultaneous growth in imports and exports implies that, with the exception of 2002, the country has always had a negative balance on the current account as a percentage of GDP. While this is meaningless, in the medium run, from an economic health point of view, or could be a sign of robust growth in the economy, the extent to which exports have been able to provide impetus to the much-needed growth in the economy has been limited. Exports certainly have been a potential source of economic growth and have been responsible for at least superseding low domestic demand in the economy. One certainly has to look to exports as a source of rapidly rising growth. As we can see from Table 4.4, export/output ratios increased consistently but so did import penetration ratios.

Table 4.4 Average annual growth in export/output and import penetration ratios, 1991–2003 (1995 constant prices)

Sector	Export/output ratio	Import-domestic demand ratio
Agriculture, forestry and fishing	13.0	7.5
Manufacturing	20.0	27.0

Source: Cassim & Van Seventer (2004)

Average annual growth in real exports in the 1990s was about 5.0 per cent, and it was double that for manufactured exports. The problem is that manufactured exports (where most of dynamic growth originates) are equal to about 12 per cent of GDP, while net exports (exports less imports) of manufacturers are about –1.0 per cent of GDP. Although an increase in the simultaneous growth of manufactured imports and exports is healthy and a sign of trade specialisation and growing efficiency, from a macro-accounting point of view, in order to claim that exports are a major impetus to growth, we would have to see a dramatic growth in net exports, specifically in manufacturing and to some extent in services. In other words, net exports of South African manufacturers relative to overall GDP are too low to affect aggregate economic performance in a major way. Thus, if we want to achieve more dramatic overall growth in manufacturing exports, the critical question is how we increase our net manufacturing exports. Alternatively, do we have to look at services exports such as tourism and financial services?

Elements of economic reform in the post-apartheid era

A myriad of reform initiatives characterise the post-apartheid period. These include reforms at the macro level, national micro level, regional level and local level. Attempting to measure the impact of various policy reforms carried out simultaneously is very difficult for several reasons. First, many reforms are at different stages of development, implying that it may be premature to measure their impact. Second, the complexity of the economy as a whole means that we have to dig into various parts of the economy in some detail before we aggregate the impact of the reform package as a whole. Finally, apart from the obvious economic reforms such as macro-policy, trade reform and deregulation, other critically important policies such as tax reform, public-sector reform, land reform, as well as black economic empowerment, education and health are critical to the first wave of reforms (although beyond the scope of this chapter).

I will focus on some of the more important reform initiatives. First, I will review South Africa's trade regime. Needless to say, the trade regime is an important driver of efficiency and productivity as it provides, crudely speaking, the key instrument to protect firms against international competition. This will be followed by a consideration of sector reforms, particularly in trade and manufacturing. Other wider influences on economic growth, such as competition policy and services reform, which are equally critical to the country's growth prospects, will be looked at briefly. Then, after surveying the various reform initiatives, I look at growth issues and assess the extent to which the reforms have been conducive to growth, adopting a classic growth accounting framework. Finally, the distributional impact of growth is reviewed.

Changing incentives in the trade regime

The last decade can be described as a period that aimed at creating an environment to improve the incentive to export through real exchange rate depreciation, a reduction in nominal tariffs and, in certain cases, sector-specific instruments to create incentives beyond tariff liberalisation for exports.[3] Trade liberalisation in pre-1990 South Africa was based primarily on export-promotion measures and less on import liberalisation. South African trade reform for the period 1994–2004 can be characterised, at best, as a process of gradual import liberalisation. This entailed several policy changes. Firstly, there was a process of reduction in nominal tariffs, particularly in manufacturing, which has historically been the most protected sector. Secondly, in conjunction with the reduction in tariffs, a declining dispersion of the number of tariff bands and categories was observed, which automatically enhanced protection in the economy. Thirdly, surcharges and quantitative controls, particularly in agriculture, were eliminated.

While quite significant import controls and surcharges in manufacturing were gradually phased out by the beginning of the 1990s, the trade regime in agriculture was still governed by quotas. Not surprisingly, the major process of trade reform in agriculture entailed a conversion of quantitative restrictions into tariffs. This represented a major landmark for the agricultural sector. The second phase comprised some liberalisation of agricultural tariffs. The process of 'tariffication' commenced in 1992 and was essentially completed by 1994. By the end of the decade, agricultural tariffs were fairly low, with the exception of a number of highly protected commodities such as sugar (40 per cent), dairy (20 per cent), beef and veal (20 per cent), mutton (50 per cent) and wheat (20 per cent). A more significant concern was the cumbersome nature of South Africa's tariff structure.

In 1990 there were 12 500 tariff lines and 200 tariff bands. Subsequently, in the period between 1996 and 2003, more significant uniformity of the tariff structure transpired. A 30 per cent decline in the number of commodity lines from 1990 to 1996 continued with a further reduction to 7 900 lines in 2003.

South Africa's trade reform is locked into the country's commitment to the World Trade Organisation (WTO). This commitment was made in 1993 against a backdrop of many tariff peaks in a range of sectors, as well as a highly cumbersome and a dispersed tariff structure with over 200 tariff categories. The country's offer consisted of reducing the number of tariff categories to six, at the rates of 0 per cent, 5 per cent, 10 per cent, 15 per cent, 20 per cent and 30 per cent, with no discretionary changes to the system being allowed (Cassim & Van Seventer 2004). The tariff phase-down schedule under the WTO is shown in Table 4.5. As a result, South Africa's average tariff declined from about 12 per cent in 1994 to about 5 per cent in 2003. South Africa's commitment to phase down tariffs was to last for approximately ten years.

This phase down of tariffs was essentially a good proxy for de facto liberalisation of the economy, as South Africa, by and large, adhered to its commitments with only a few areas where the implementation by Customs and Excise has been slow. A detailed product breakdown of South Africa's most current tariffs is given in Table 4.5. As we can see, the so-called sensitive products that receive relatively high protection are in clothing, textiles and footwear.

Another way of presenting de facto protection in the economy is to look at both the number of tariff lines and the percentage of imports in different tariff bands. The tariff schedule, however, has not significantly changed in the last two to three years, specifically between 2000 and 2003. Approximately 40 per cent of the commodity lines identified in the schedule are zero-rated. More than 20 per cent have a non-*ad valorem* tariff and about 8 per cent of lines occupy the 15–19 per cent range, about 7 per cent occupy the 10–14 per cent range and 5 per cent occupy the 5–9 per cent range. Just 1.7 per cent of the lines are associated with tariffs in the 1–4 per cent range (see Table 4.6).

However, as is evident in Table 4.7, de facto protection is even greater if we take cognisance of the fact that South Africa entered into two free trade agreements with the

Table 4.5 Tariff phase down under the WTO

New ISIC*	Description	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
3	Textiles	30.1	33.8	31.8	24.9	23.4	21.9	20.3	18.7	17.3	17.3	17.3
4	Clothing, excl. footwear	73.7	73.6	68.2	54.6	50.5	46.4	42.4	37.7	33.2	33.2	33.2
5	Leather and leather products	14.9	14.8	14.1	16.5	15.7	14.8	14.8	14.8	14.8	14.8	14.8
6	Footwear	37.5	41.6	39.1	36.8	34.2	29.1	29.1	29.1	29.1	29.1	29.1
7	Wood and wood products	13.9	3.6	3.4	3.5	3.3	3.1	3.1	3.1	3.1	3.1	3.1
8	Paper and paper products	9.6	9.3	9.1	8.8	8.7	8.5	7.9	7.3	6.8	6.2	5.6
9	Printing and publishing	8.1	1.3	1.2	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0
10	Petroleum and petroleum products	1.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
11	Industrial chemicals	9.3	7.5	7.5	1.7	1.7	1.6	1.6	1.6	1.6	1.6	1.6
12	Other chemical products	9.0	3.8	3.7	2.7	2.6	2.5	2.5	2.5	2.5	2.5	2.5
13	Rubber products	30.5	14.5	14.1	15.8	15.4	14.9	14.6	14.4	14.0	14.0	14.0
14	Plastic products	19.8	14.7	13.7	13.2	12.6	12.0	12.0	12.0	12.0	12.0	12.0
15	Glass and glass products	11.8	9.5	9.0	8.3	7.9	7.6	7.6	7.6	7.6	7.6	7.6
16	Non-metallic mineral products	10.6	8.7	8.1	8.4	8.0	7.7	7.7	7.7	7.7	7.7	7.7
17	Basic iron and steel products	7.6	4.4	4.2	4.2	4.1	3.9	3.9	3.9	3.9	3.9	3.9
18	Non-ferrous metal products	2.3	2.3	2.3	2.3	2.2	2.0	2.0	2.0	1.9	1.7	1.7
19	Metal products, excl. machinery	13.1	8.2	7.8	7.8	7.6	7.4	7.4	7.4	7.4	7.4	7.4
20	Non-electrical machinery	6.5	1.4	1.3	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3
21	Electrical machinery	11.0	6.1	6.0	5.8	5.8	5.7	5.7	5.7	5.7	5.7	5.7
22	Radio, television and communication equipment	12.1	5.1	3.7	2.4	2.3	2.3	2.3	2.3	2.3	2.3	2.3
23	Professional equipment, etc.	7.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
24	Motor vehicles, parts and accessories	55.4	33.5	31.7	29.3	27.9	26.1	24.8	23.2	22.1	22.1	22.1
25	Other transport equipment	1.4	0.4	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
26	Furniture	28.1	21.4	20.8	20.2	19.6	18.9	18.9	18.9	18.9	18.9	18.9
27	Other manufacturing	2.9	1.0	1.0	5.2	5.1	5.0	4.9	4.9	4.9	4.9	4.9
82	Mining	2.7	0.6	0.6	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Total		11.7	7.2	6.8	6.1	5.8	5.5	5.3	5.1	4.9	4.9	4.9

Source: IDC (2004)

Note: *ISIC = International Standard Industrial Classification; n.a. = not applicable.

Table 4.6 South Africa's most favoured nation (MFN) tariff schedule, 2003 (R billion current prices)

Range	Commodity lines	Percentage	Imports (R billion)	Percentage
40%+	306	3.9	6 028	4.1
30–39%	207	2.6	14 213	9.8
20–29%	2 151	27.2	8 569	5.9
15–19%	673	8.5	4 924	3.4
10–14%	573	7.2	6 636	4.6
5–9%	407	5.1	4 764	3.3
1–4%	132	1.7	1 630	1.1
0%	3 472	43.8	98 785	67.9
Total	7 921	100.0	145 549	100.0

Source: Cassim & Van Seventer (2004)

Table 4.7 South Africa's MFN, EU and SADC tariff schedules, 2003 (R billion current prices)

	Number of lines			Per cent of lines			Imports (R billion)			Per cent of imports		
	MFN	EU	SADC	MFN	EU	SADC	MFN	EU	SADC	MFN	EU	SADC
40%+	306	49	16	3.9	0.6	0.2	6 028	7 262	98	4.1	6.9	2.4
30–39%	207	450	19	2.6	5.7	0.2	14 213	13 932	0	9.8	13.3	0.0
20–29%	2151	782	380	27.2	9.9	4.8	8 569	5 552	332	5.9	5.3	8.1
15–19%	673	1 876	408	8.5	23.7	5.2	4 924	4 262	82	3.4	4.1	2.0
10–14%	573	607	1 687	7.2	7.7	21.3	6 636	3 535	598	4.6	3.4	14.7
5–9%	407	329	269	5.1	4.2	3.4	4 764	2 848	143	3.3	2.7	3.5
1–4%	132	205	18	1.7	2.6	0.2	1 630	1 434	6	1.1	1.4	0.1
0%	3 472	3 623	5 124	43.8	45.7	64.7	98 785	66 228	2 818	67.9	63.0	69.1
Total	7 921	7 921	7 921	100.0	100.0	100.0	145 549	105 054	4 078	100.0	100.0	100.0

Source: Cassim & Van Seventer (2004)

European Union (EU) and the Southern African Development Community (SADC) in the 1990s. Few imports come in at 40 per cent tariffs for the EU relative to the MFN, and considerably fewer for the SADC. Likewise, more imports come into South Africa from the EU in the 15–19 per cent tariff range relative to the MFN, while more imports from the SADC compared with the MFN and EU are in the 10–14 per cent range.

While nominal tariffs are important and create consumption distortions, they are less effective predictors of resource shifts in the economy. Instead, effective rates of protection are more appropriate as they take account of both input tariffs and output tariffs, giving a more accurate measure of relative value added. The nature of nominal tariff reform will determine whether effective rates of protection move in tandem with nominal reductions or simply in the opposite direction. The experience in South Africa is mixed, depending on which sector one looks at. In most cases, however, the effective rates are much higher than the nominal rates.

There has been some debate in South Africa as to the extent to which the economy has become more protected or not, specifically if one uses effective rates of protection as a measurement tool. The simplest way to think about effective rates of tariff protection is to continue with the net protection concept mentioned earlier, which suggests that we should be concerned with the impact of nominal tariffs on net production, or value added. In particular, we like to know the difference between a sector's value added in world prices and in domestic (i.e. distorted or observed) prices expressed in terms of the latter. The analysis about whether effective rates of tariff protection have increased or decreased, or whether the magnitude of their change in the economy stems from data and methodological queries, tends to be conflicting (see Harmse & Rangasamy 2003; Fedderke & Vaze 2001). Relevant factors include the preferred method of calculation, the decision to use statutory tariffs or collection rates, the way in which non-*ad valorem* duties are calculated, and so on.

The bottom line is the following: effective rates of protection are much higher relative to nominal rates of protection in the economy. However, as far as levels are concerned, effective rates have come down over the years (see Table 4.8).

Table 4.8 Weighted average effective rates of protection for non-service sectors in the South African economy by percentage, 1996, 2000 and 2003

	1996	2000	2003
Unweighted average nominal tariff	17.4	10.7	9.5
Weighted average nominal tariff	11.0	8.0	7.8
Effective tariff protection, based on weighted average nominal tariff	17.0	13.2	11.8

Source: IDC (n.d.) DTI (2004) for tariffs; Customs & Excise for trade; Stats SA for 2000 Supply-Use Table; and own calculations

It is debatable whether a more dramatic liberalisation would have been more desirable and whether it would have had a major impact on efficiency and productivity. It is, however, important to emphasise that the trade regime is only one policy, amongst many, that can play an important role in inducing more efficiency in the economy. The trade regime matters considerably in an economy where tariff levels are excessively high, but matters less where tariffs are moderate. In general, South Africa's tariff levels are moderate, although one should not underestimate the costs of current peaks. The process of tariff reform in the last decade has not been a dramatic and sweeping one. Some sectors have seen substantial reductions in overall tariff levels but this has been from a high base. For example, in sectors such as the motor industry and clothing and textiles there were tariff reductions of over 50 per cent in the last ten years. These, however, were from levels of about 70–80 per cent to 30–40 per cent, and we are still left with considerable peaks, despite the high absolute reductions. It is important to bear in mind that even after the large tariff reductions, the tariff base is still high in the sectors mentioned and still provides significant protection.

Industrial policy reform

An important characteristic of South Africa's industrial policy landscape has been the gradual elimination of price-distorting measures such as export subsidies, and the shift to a more productivity enhancing supply-side framework. A striking feature of the post-1994 era has been the gradual elimination of major subsidies, with two exceptions – the existence of an implicit subsidy in the motor industry and the clothing and textile industry. Without going into great detail, this section highlights a few specific issues that have implications for the way we think about manufacturing growth prospects.

The government introduced a series of supply-side measures, such as the competitiveness fund and incentives for technological innovation.[4] Other important measures associated with industry policy in the last decade include Spatial Development Initiatives and strategic investment incentives. A full discussion of the costs and benefits of these programmes is beyond the scope of this chapter. Kaplan (2003) argues the following on the basis of firm surveys conducted: firstly, the number of firms making use of supply-side measures is low, particularly for small firms and, secondly, the overall utilisation rate has not been increasing. In general, the effectiveness of the supply-side measures has been limited. However, they may well have been effective in some sectors or geographical concentrations, but the basic point is that supply-side measures may have limited effect in contexts of low demand, low investment, or lack of an enabling environment where costs, such as for communications and distribution, are high.

In looking at industry policy reform, it is useful to track the changing composition of the South African economy at a more disaggregated level. At this stage, we are left with a picture of modest growth in the aggregate, but some interesting developments have taken place within subsectors. Contraction in several sectors since 1992 is contrasted with the expansion of other sectors. There is also evidence to show that these trends are long-term structural trends and not simply cyclical.

Some sectors that have achieved the highest growth rate in the last decade are shown in Table 4.9. Traditionally labour-intensive sectors such as clothing, furniture and footwear, on the other hand, have experienced negative growth rates.

Table 4.9 Percentage change in value added, 1992–2003

Sector	Percentage
Communications	12.70
Basic non-ferrous metals	10.15
Basic chemicals	5.30
Motor vehicles, parts and accessories	5.20
Finance and insurance	4.55
Basic iron and steel	4.30
Wood and wood products	4.25

Source: TIPS 2004

An important issue is the extent to which we are seeing any resource shifts in the economy. One of the tangible indicators of resource shifts in the economy is whether the composition of capital stock has changed. At the more detailed industry level, there are several industries that have seen robust growth in capital stock – plastic products; professional and scientific equipment; motor vehicles, parts and accessories; leather products; communications services; and basic chemicals (see Table 4.10).

Table 4.10 Average annual growth in capital stock, 1992–2003 (1995 constant prices)

Sector	Percentage
Communications	13.35
Basic non-ferrous metals	12.90
Leather and leather products	7.50
Motor vehicles, parts and accessories	6.55
Plastic products	5.05
Community, social, personal services (profit seeking)	4.55
Coal mining	4.45
Professional and scientific equipment	4.20
Medical, dental, other health and veterinary services	4.20
Paper and paper products	3.50
Television, radio and communications equipment	3.40
Basic chemicals	2.75
Beverages	2.45
Other mining	2.35
Glass and glass products	2.35
Wholesale and retail trade	2.00
Coke and refined petroleum products	1.85
Rubber products	1.85
Other transport equipment	1.80
Business services	1.75
Food	1.70
Other industries	1.65
Basic iron and steel	1.25
Printing, publishing and recorded media	1.10
Catering and accommodation services	0.90
Finance and insurance	0.85
Furniture	0.85
Other chemicals and manufactured fibres	0.80
General government	0.75
Metal products excluding machinery	0.70
Civil engineering and other construction	0.65

Source: TIPS 2004

By contrast, a number of critical sectors such as clothing, textiles, footwear, furniture, machinery, television and communications equipment, glass products, metal products and electrical machinery experienced negative growth rates from 1992 to 2003 (see Table 4.11).

Table 4.11 Average annual growth in capital stock, 1992–2003 (1995 constant prices)

Sector	Percentage
Wood and wood products	–0.15
Water supply	–0.30
Building construction	–0.65
Non-metallic minerals	–0.65
Machinery and equipment	–0.70
Agriculture, forestry and fishing	–0.70
Electrical machinery	–0.80
Wearing apparel	–1.15
Textiles	–1.65
Other producers	–2.45
Transport and storage	–2.80
Electricity, gas and steam	–3.05
Footwear	–3.05
Gold and uranium ore mining	–3.15
Tobacco	–3.35

Source: TIPS 2004

If we take a ten-year trend, it is evident that the trajectory of growth of capital stock is changing in the different sectors of the economy. The central question is what influence economic policy has had on this changing composition. Put differently, what explains this diversity in the performance of various sectors? Could it be historical overhang, sector-specific policies, macroeconomic policy, factor markets or overall government policy that had a sectoral bias?

Explaining changing resources shifts in the economy is more complicated, as various structural factors and policies can have a simultaneous impact – a difficult question to answer, but some factors are suggestive. We could, for example, attribute some of the changing sectoral composition of the economy in the last decade to changes in the trade regime. The emphasis on the trade regime hinges on the assumption that the structure of the South African economy has historically been shaped by high levels of protection for a range of sectors, as well as a range of subsidies and other incentives. Resource shifts in the economy may be as a result of a range of factors other than the trade regime. What does seem increasingly clear is that a reduction in tariffs, an elimination of subsidies and a continuous long-term depreciation of the real effective exchange rate, combined with contractionary local demand, have induced greater export orientation of, and some sectoral shifts in, the economy.

Industries with relatively large capital stocks and previous state involvement, such as mining, basic iron and steel, petroleum refineries and electricity, have seen their growth in capital stock reduce (or turn negative) during the second half of the full period, although basic chemicals is an exception to this rule. Roberts (2004) suggests that the growth of sectors in the post-apartheid era has characteristics of path-dependence, because previous government measures, such as support given to develop basic chemicals, have resulted in competitive firms like Sasol.

Another important sector that has grown considerably is the motor industry. In South Africa, the industry has been the subject of heated debate. Underlying this is that the specificities of the industry have relevance to broad policy considerations about the competitiveness of South Africa's industrial structure, and the role and impact of policy in altering the course of the sector. The industry is central to the debate on industrial policy, and is consistently seen as a model to replicate in other sectors.

The Motor Industry Development Programme (MIDP), introduced in 1995, is a system of incentives based on selective import duty reductions, which provides substantial subsidies to investment and exports in return for the production and sale of motor vehicles in the protected domestic market.[5] Among the main features of the MIDP was the reduction of tariff protection on fully built-up vehicles from an effective 115 per cent in 1994 to 65 per cent in July 1995, 61 per cent in January 1996, and ultimately 40 per cent by 2002. Similarly, duty on completely knocked-down kits fell to 49 per cent over the same time span, with the ultimate objective of enhancing international competitiveness. In addition, the MIDP also aimed to reduce the number of locally produced vehicle models from 39 to 15 between 1995 and 2003, with duty-free incentives being used to enhance the sale of high-volume models at the expense of low-volume ones.

The motor industry has been singled out because it has enjoyed considerable export success, although this success has not been based purely on competition. In strict textbook terms, the industry enjoys both infant industry protection as well as an implicit subsidy. There is an ongoing debate about the costs and benefits of such a programme. What is quite important is that whatever perspective one may adhere to, very few will disagree with the fact that the benefits of the MIDP have to outweigh the costs. The problem is how these benefits and costs are measured. Put another way, if the sector becomes competitive under a free-trade regime, what has been the cost of this to the economy and could this have been achieved in a less costly way – either through a reduction in tariffs without subsidies or a different industrial policy?[6]

Economists' obsession with the costs of a programme that seems to be working well stems from the fact that its success lies in distorted incentives based on two sets of costs – tariff protection, which has a price-raising effect for consumers, and an implicit subsidy to investments and exports. Flatters (2003) argues that the value of these subsidies rests on rents created by continued import protection for vehicles and components in the domestic markets. They gain their effect through transfers from South African vehicle buyers and they encourage economic inefficiency through the cost of production of vehicles and components in South Africa.

Black and Mitchell (2003), on the other hand, attempt to provide a theoretical framework to determine if there is a welfare-enhancing case for the MIDP, despite the fact that prices are well above international prices. They argue that under certain assumptions the cost reductions resulting from higher-volume production can be welfare enhancing even where prices remain above world prices. Implicit in this view is that, notwithstanding the cardinal rule of the cost-distorting impact of protection in international trade, there may be some merit in the attempt by the government to introduce a scheme that encourages a reduction in the long-run average costs of firms by encouraging economies of scale through export incentives.

Their argument implies that the exclusive focus on static costs of protection may be too short-sighted. The major benefits of the policies may be costly in the short run, but may produce externalities, learning effects and so on in the long term. The question is whether there are more efficient ways of doing this. This can only be answered empirically, and work is being done to demonstrate exactly the extent to which we are able to track benefits in the motor industry. This will be an important input into further debates about the industry. Contradictory evidence is emerging on the sector, with some arguing that productivity improvements and innovations are part of the externalities that the sector is benefiting from, while others argue that the direct cost per job created, for example, in the motor industry appears to be very high and the indirect costs to employment in other sectors might also be high.

As mentioned earlier, the motor industry was singled out because it has been seen as an industrial policy success and as being of relevance to other sectors. Naturally, many other interesting policies exist in other sectors that ought to be looked at to get a more comprehensive feel for the diversity of sectors, but it is extremely difficult to provide a comprehensive analysis of the individual growth trajectories of the various sub-sectors. In general, however, some interesting trends have emerged. Some sectors have grown in response to trade liberalisation, others have grown in response to protection, and others have declined despite protection. Moreover, the fate of many wage-goods sectors, such as clothing and textiles, has been determined partly by a contraction in output or consumer demand, while the growth of services, for example, has been determined partly by deregulation, changing demand trends and technological innovation.

Competition policy

One of the most significant developments in South Africa in the area of industry reform has been the development of an effective competition policy. The legal framework is set out by the Competition Act of 1998, which came into full effect on 1 September 1999. Three institutional bodies were established by the Act: the Competition Commission, the Competition Tribunal and the Competition Appeal Court. This represents an important departure from the past, in that the government is now more accountable for rulings or decisions.

Competition policy is central to creating greater efficiency in the economy, in view of the fact that one of the major concerns in the economy is the presence of mark-ups resulting from lack of contestability in markets. This reverberates throughout the economy in a number of goods and services sectors. A critical evaluation of judgements passed by the Tribunal or the Appeal Court is beyond the scope of this study, but a casual review of the cases that have gone through the Tribunal underlines the important role of government policy in ensuring contestability amongst firms that would have generally enjoyed high profits and rents owing to abuse of dominance. For example, the Tribunal ruled against the merger of two furniture retailers on the grounds that it would have led to less competition in the sector as the market share of the merged stores would have ranged from 40 per cent to 60 per cent in several of the product markets. There have been other prominent cases in sugar, packaging and alcoholic beverages, for example, where horizontal mergers were prevented on anti-competitive grounds. Similarly, several vertical mergers were blocked on the grounds that they would have enhanced market power because of the links between competing in a market and being able to source inputs or effectively supply customers.[7]

While there have been some obviously positive spin-offs from the practice of competition policy in South Africa, the economy still suffers major structural problems of a market-power nature. For example, Roberts (2004) shows how the absence of competition policy in the South African steel sector has been at a considerable cost to the economy. The steel example demonstrates two important policy lessons: firstly, ensuring contestability of markets is a core function of government and, secondly, trade policy is an ineffective form of competition policy in specific circumstances.

The steel industry has been dominated by a previously state-owned company that was privatised in 1989. Apart from its monopoly status, the industry enjoyed high levels of tariff protection at about 30 per cent until the mid-1990s, with a substantial reduction to 5 per cent in 1996. What is particularly important to bear in mind is that the cost of steel has a major impact on metal products, accounting for approximately 42 per cent of inputs into structural metal products and 38 per cent of inputs into fabricated metal products (Roberts 2004).

The major economic costs of steel are that prices on the domestic market are well above international prices and, more importantly, well above the tariff wedge of 5 per cent; in other words, the industry prices at import-parity, which includes the price that domestic firms would pay if they were to import steel, taking into consideration transport and other associated costs. Essentially, what this implies is that industry is pricing well above its marginal costs. Apart from the general deadweight loss to the economy of these high prices, this has also had adverse effects on downstream sectors relying on steel. Once again, this is an example of cost inefficiencies in the economy that the reform process has not been able to take on squarely. There are many other more serious examples, specifically in services regulation, as we will see in the next section.

Privatisation and services regulatory reform

Major inefficiencies exist not only in South African product markets but in services too.[8] As tariffs (primarily an instrument to protect the goods sector) come down steadily in South Africa, more and more attention has been focused on regulatory barriers in services and utilities. An interesting aspect of economic policy change in the last few years has been the increasing importance of services and utilities in employment, output and efficiency terms. Two central tenets of policy change in services and utilities have been privatisation and the reduction of barriers to entry, in order to reduce market power in various sectors.

Four key parastatals in the electricity, transport, telecommunications and defence sectors – which accounted for 86 per cent of aggregate state-owned enterprise (SOE) turnover, 94 per cent of total SOE income, 77 per cent of total SOE employment, and 91 per cent of total SOE assets – really matter for the privatisation process in South Africa. A few isolated incidents of privatisation in the 1980s aside, a programme of privatisation and restructuring of South African SOEs was undertaken in the mid-1990s.

There were several facets to the privatisation programme. These consisted of a combination of privatisation and strategic equity partnerships, often with a significant minority stake for foreign investor or strategic management partners, with the precise mix tailored to the industry in question.

The privatisation process in South Africa has been focused largely on divestiture of 'non-core businesses', such as resorts, broadcasting stations and related services in the transport sector, as well as the restructuring of utilities by selling minority stakes to strategic equity partners and black economic empowerment (BEE) groupings. SOEs that were fully privatised between 1997 and 2000 include the South African Broadcasting Corporation, Sun Air, Transnet's Production House, Chemical Services and Transmed Administrator. It is important to note that in most cases only sections of the SOE were earmarked for sale and that the privatisation was generally part of a broader process including the restructuring and corporatisation of South African SOEs (Department of Public Enterprises 2001a).

Of the four priority SOEs, three were earmarked for (partial) privatisation. These included parts of Transnet, approximately 50 per cent of Telkom and a small part of Denel. Eskom was to be deeply restructured, but not necessarily privatised, although more recently it has transpired that 30 per cent of Eskom Generation will ultimately be in private hands. A strategic equity partner has purchased 30 per cent of Telkom and another 3 per cent was sold to BEE partners.

A key problem in utilities has been the way the sequencing has evolved with some level of privatisation but without any changes in market structure. Partial sale to private investors has simply transformed the public monopoly into a private one, without creating the incentives for efficiency or innovation that competition could spark. In sum, what is most striking about the restructuring process in South Africa is the fact that little emphasis has been placed on the introduction of competition in the sectors concerned. It is common knowledge that privatisation *per se* does not make companies more competitive or industries more efficient. In South Africa, partial privatisation has been given priority in the utility sectors. In some cases, it could be argued, this has been at the expense of competition and regulation, as strategic equity partners demanded extended monopoly rights or were guaranteed limited (price) regulation.

It is important to bear in mind that many of the state-owned sectors, specifically utilities and other services sectors, constitute a large part of the South African economy in output and employment terms. Hence, what happens in services has profound implications for the future prospects of the economy. Moreover, services and utilities are important inputs in the manufacturing sectors and matter for the competitiveness of these economies. While these complex issues should be the focus of a separate study, a few brief examples of how many of the efficiency losses borne by the South African economy are caused by inertia in utilities and services are instructive.

The restructuring of telecommunications will have a critical impact on reducing communication costs in the economy, as there is strong evidence to suggest that the current prices of fixed lines, mobile services and Internet access are above international prices. The introduction of competition may lead to significant changes in price structures, service levels and technology (see Hodge 2002b). In transport, the transaction costs associated with delays at harbours for imports and exports are high and this could be significantly affecting South Africa's trade. Shipping costs are high and affect an estimated 60 per cent of exports of many manufactured and primary products. As far as energy restructuring is concerned, the current price levels are considered below total social cost (i.e. including negative externalities), which may lead to sub-optimal investment decisions (Bhorat & Cassim 2004).

Another important services sector that has implications for both distribution and efficiency is the South African financial services sector. Access to capital plays an important role in sustaining firms as well as influencing their ability to be competitive. The South African financial sector has been undergoing a process of gradual liberalisation. Considerable regulatory changes have taken place in this sector, particularly in opening it to foreign investment. An important development was the repealing of a regulation that prevented foreign competition in the banking sector. However, although foreign competition has raised the stakes in providing services for the public and corporate sectors and for wealthy individuals, increased competition for the lower income market has not been forthcoming. The issue of anti-competitive behaviour by local banks is a contentious one, particularly with respect to their control of the national payments system. While it is difficult to establish the extent to which local banks are complicating the entry of new participants and, hence, whether their behaviour constitutes a significant market access limitation, the national payments system is effectively owned by those who run it (Cassim & Steuart 2005).

There are several areas where further reform, specifically of the banking sector, could play a critical role in reducing the costs of banking services, reducing borrowing and lending spreads as well as providing more competition at the lower segment of the market to provide opportunities for those who do not have a bank account. There is a view that the costs of banking are a great deterrent to low-income people being able to save. The lack of competition in banking can significantly constrain the growth of the economy, in that access to capital is important both for the expansion of firms and for the growth of small enterprises.

The treatment here of these important themes emerging from services and utility reforms is somewhat superficial and incomplete, as this ought to be treated as a subject on its own. Nevertheless, the main aim was to contextualise the issues of utility and services reforms in the broader growth and economic reform debate by identifying how these can have an influence on growth and how the absence of reform can be detrimental to getting the economy on a far more significant growth path.

Economic reform and the growth predicament

An assessment of the cluster of reforms reviewed here needs to take cognisance of the major factors that act as a constraint to growth. Many of these have been mentioned earlier, such as low investment or capital accumulation, low levels of human capital and technological innovation and low levels of efficiency in the economy. A slightly different line of inquiry to the one pursued so far would be to review the major constraints faced by the ANC government since it came into power in the 1990s and to assess how government policies have either contributed to or deterred growth.

It is important to question why government policy was ineffective in accelerating growth, at least in the medium run (within a decade of democracy), and to ask what the circumstances were that led to the outcome we have experienced so far. Needless to say, this critical form of inquiry can only be grasped if we clearly understand what drives growth in the economy and the extent to which conditions were met for the take-off of a sustained, long-term growth trajectory. Striking at the heart of South Africa's growth predicament is the problem of low investment in the economy. What measures could be taken to encourage investment? This is what ought to be the central preoccupation of policy-makers.

Pro-growth reforms assume that growth in a small or middle-income open economy like South Africa's is dependent on increasing efficiency and productivity, which depends on a range of factors, including improved education and human capital, infrastructural investment, trade reform and the existence of contestable markets, generally achieved though competition policy. An important conceptual way to think about the relative importance of different policy variables to growth is to think about GDP growth and the degree of significance of policy changes in augmenting growth.

We know that savings/investment in physical capital, human capital formation and technological change are the main sources of growth. If the economy were to have grown at a faster pace than it did in the last ten years, we would have to ask what the sources of this growth would have been. Various studies, utilising growth accounting frameworks, show how a large part of growth in the decade after apartheid came from increasing total factor productivity (TFP) rather than from an increase in capital accumulation or investment. Table 4.12 provides a comparison of capital, labour and TFP estimates of South Africa compared to Ireland and China.[9]

Table 4.12 Relative contribution of capital, labour and TFP to growth, South Africa, Ireland and China

Source	Period	Capital	Labour	TFP	Output
South Africa	1970s	2.6	1.6	–1.0	3.9
	1980s	1.3	1.0	0.0	1.6
	1990s	0.5	–0.9	1.8	2.0
Ireland	1986–96	0.8	1.8	2.7	5.3
China	1978–95	3.1	2.7	1.7	7.5

Source: Barry (2000); Goldman Sachs (2003)

Table 4.13 provides comparisons of East Asian countries whose growth experiences have often been used as a benchmark for many developing countries.

Table 4.13 Relative contribution of capital, labour and TFP to growth, East Asia, 1960–1994

	Capital	Labour	TFP	Output
Hong Kong	2.8	2.1	2.4	7.3
Indonesia	2.9	1.9	0.8	5.6
Korea	4.3	2.5	1.5	8.3
Malaysia	3.4	2.5	0.9	6.8
Philippines	2.1	2.1	–0.4	3.8
Singapore	4.4	2.2	1.5	8.1
Taiwan	4.1	2.4	2.0	8.5
Thailand	3.7	2.0	1.8	7.5

Source: Barry (2000)

What is striking about South Africa in Table 4.12 is that it is the only country with a negative contribution of labour to growth. Looking at the contributions of capital, labour and productivity to growth, South Africa's performance is particularly weak, as we have the dual problem of low investment and low employment, but we have seen some improvement in efficiency. In other words, the residual – TFP growth – accounts for a large part of the growth in the economy. TFP can rise as firms shed workers (perhaps to increase competitiveness), but this is not efficient from an economy-wide point of view if it leads to the unemployment of potentially productive resources. Rising TFP tends to go with rising unemployment and thus does not denote rising economic efficiency, whereas stagnant TFP often accompanies rising economic efficiency. None of these paradoxes holds in the long run, though.[10]

What is interesting about Ireland is the low contribution from capital accumulation and the high contribution from labour inputs. Barry (2000) attributes the high contribution of labour inputs to the fact that unemployment and low participation rates prevailed at the beginning of the period, as well as to the elastic supply of labour from the emigrant community abroad. By Irish standards, East Asian growth was not that spectacular.

It is clear from the growth accounting exercise that the underlying problem in South Africa is the low level of capital accumulation, which is the most important determinant of accelerating growth. Indeed, the question to ask is whether the policies were far-reaching enough to address the problem of low investment. In other words, do major distortions still exist in South Africa's capital, labour and output markets? Or is the absence of demand-side stimulation a major cause of low investment?

The thrust of macroeconomic policy and its role in stimulating demand has been the subject of considerable debate in South Africa. Any brief discussion of macro-policy runs the risk of a crude and oversimplified interpretation, but there needs to be a debate about what the appropriate level of real interest rates ought to be, and what the costs and benefits would be of a more expansionary fiscal policy than has been the case so far. As mentioned earlier, notwithstanding this important debate, there is no getting away from some of the significant supply-side constraints that persist in the South African economy. One particular aspect of macroeconomic policy that has had an adverse effect on competitiveness and exports is exchange rate volatility. The problem is that the exchange rate is viewed as a variable, the management of which involves balance of payments equilibrium and inflation targeting.

A stable and competitive exchange rate is important in view of the fact that demand considerations become less of a constraint for a small, open economy where trade barriers have come down enormously in the last two decades. It is hard to reap the benefits of openness if we cannot maintain a competitive exchange rate. This could keep aggregate demand high. Gelb (2004) argues that one of the major problems with regard to monetary and exchange policy in South Africa in the post-apartheid era has been the failure of the authorities to take on the problem of external volatility.

Although South Africa has its economic fundamentals right, growth and employment creation and many other factors may have an influence on growth parameters that are beyond the cluster of policy measures examined here. The extent of the skills constraint on growth is hard to measure but it plays an important role; moreover, the skills constraint is likely to become more binding if growth accelerates. The role of other factors can be equally overwhelming in dampening growth prospects. Factors such as property rights, appropriate regulatory structures, and quality and independence of the judiciary have been identified in the international literature as major contributors to growth. It is not clear to what extent these matter in South Africa but they certainly play some role.

Bhorat and Cassim (2004) identify a few factors that seriously dampen growth. These include uncertainty, crime and HIV/AIDS, to name a few. Various firm surveys (World Bank 1999; Gelb 2001) and econometric analyses (Fedderke 2001) conducted in the last few years point out that uncertainty remains one of the key deterrents to investment and, therefore, to growth. Identifying sources of uncertainty is quite complex because the notion of uncertainty is amorphous, at best, and it is interpreted in different ways by investors. There is a range of highly subjective factors that underpin the role of uncertainty as a deterrent to growth and investment. For example, the credibility of government policies may be questioned or uncertainty may be brought about by policies that could be reversed, such as the erratic liberalisation of utilities or trade reform. Perceptions of a weak property-rights regime or poor governance are equally important to investor perceptions. Although there is not authoritative literature on this aspect, uncertainty clearly has a critical effect on investment in the South African manufacturing industry. The threshold rate of return to investment is increased to provide for uncertainty; in other words, uncertainty implies risk that puts a higher premium on the rate of return to investment compared with a risk-free environment (Fedderke 2001).

Another important deterrent to investment in South Africa is violent crime. The economic impact of crime as a deterrent to growth should not be underestimated. Actual statistics on crime are riddled with problems such as the capacity to record crime, the way it is reported, identifying the specific nature of the crime, as well as lack of reporting by victims. Notwithstanding these problems, the evidence suggests that crime is an overwhelming problem in South Africa by any standards. For example, United Nations statistics for 2000 show that South Africa has the highest rate of murder in the world – 60 per 100 000 of the population (followed by Columbia at 55 per 100 000 and Peru at 10 per 100 000). It is hard to conceive of an economy growing at the expected levels without dealing with the nature of violent crime. The World Bank and the Greater Johannesburg Metropolitan Council conducted a series of firm surveys in 1999, the details of which we noted earlier. A key finding of the studies was that crime and theft were rated as the most important constraints on firm growth by most of the CEOs interviewed. For example, based on the sample, 83 per cent of firms experienced crime in 1998 and over 60 per cent experienced break-ins and property theft (Bhorat & Cassim 2004).

There is limited empirical work on how exactly crime affects growth in South Africa. Nevertheless, from casual evidence it is clear that there are essentially three ways in which crime impacts on investment, efficiency and skills levels. Firstly, crime contributes to systemic uncertainty in the economy owing to risk to both lives and private property. Secondly, it raises the operational cost of firms. Crime prevention can also be considered a drain on resources and is, therefore, a constraint on growth. Thirdly, crime contributes to the emigration of skilled people (Bhorat & Cassim 2004).

The spread of HIV/AIDS in South Africa has put the economy under serious strain. South Africa has one of the largest infected populations in the world, with almost 20 per cent of adults carrying of the disease. There are several ways in which AIDS impacts on economic performance. Apart from the serious loss of human capital, there are high labour market costs as well as the pressure to direct more resources to medication, care and prevention. These resources could otherwise have gone towards growth-enhancing expenditure. Arndt and Lewis (2002) point out that AIDS is more prevalent among young adults. This not only reduces overall life expectancy and the rate of population growth, but also increases the burden of the working population, who are required to care for those affected. Moreover, HIV-positive individuals are likely to have declining labour productivity. Based on their model, Arndt and Lewis argue that GDP growth is likely to be affected by 1.0 per cent every year if we factor in the AIDS pandemic.

The impact on GDP growth of the issues raised here could be considerable. The cumulative effects of these deterrents to growth and investment imply that any type of policy targeting structural supply-side problems will have an impact on growth in the long term only. What the policy response ought to be is a difficult issue.

Economic reform and the problem of employment and poverty

It is sometimes tempting to argue that one thing worse than no growth is low growth. It is clear that South Africa needs above 5 per cent growth a year to make a significant impact; low levels of 2–3 per cent create some complacency. There are several obvious paths that one would have liked to see the economy take in the last ten to twelve years. One path is increasing employment growth often associated with robust output growth. An alternative, within a stagnant economy, is increasing opportunities for labour-intensive jobs, specifically through the creation of small, medium and micro enterprises (SMMEs), or increasing labour intensity of the economy. By and large, these have not happened – the question is why.

So far, this chapter has looked at ways of increasing efficiency in the economy, but has not said much about redistribution. It is important to remember that income inequality in South Africa pre-dates the first wave of economic reforms; in fact, income inequality largely took place in a closed import-substitution industrialisation context.[11] It is hard to imagine that the policies needed to create more efficiency, as well as enhance productivity, would turn distribution around in a significant way within a decade. The major risk was that they might actually worsen poverty or inequality. In fact, there is strong evidence to suggest that the impact of growth on poverty depends, to a large extent, on the initial income level in a country (see Adams 2004). Hence, to say that the first wave of reforms could not impact on income distribution in a significant way is a moot point.

Most of the policies that have been discussed are, in some senses, not intended to induce major redistribution in the economy, although in the long run this ought to be their key objective. For example, if one looks at trade liberalisation in the South African economy, it is difficult to assert that, in the medium run, liberalisation either significantly contributed to or undermined job creation. Various studies have emerged in the last decade making use of a range of different techniques, ranging from econometric estimates to input/output decomposition calculations and labour-demand decomposition methods.

A review of the evidence on the relationship between trade, employment and earnings in South Africa during the 1990s yields mixed evidence. However, it can be concluded that, in the main, trade liberalisation has had little effect on employment or poverty in the economy.

The major factors that determine increasing capital intensity in the economy, or unemployment, are technological changes, labour market factors (skills constraints and labour legislation) and low demand (Cassim, Onyango & Van Seventer 2003). Similarly, in the area of privatisation, one of the key, contentious issues is what the implications are of introducing more privatisation and competition into an economy where the distribution of income is highly skewed. Central to this is whether increasing privatisation leads to more or less universal access to services for the poor, relative to job creation or loss effects. It is clear that, similar to trade liberalisation in goods liberalisation, services liberalisation may lead to job losses as we liberalise inefficient sectors. In some ways, job losses are far easier to track if you are talking of one monopoly and its eventual liberalisation, as is often the case in utilities. Access to services for the poor has improved considerably in the last decade. However, as would be expected, this came about less because of policy changes within utilities than because of changing budget and expenditure priorities.

The way in which the democratic government dealt with this issue of distribution was to resort to the budget and public expenditure side. Indeed, this is an area where the break from the previous government is starkly evident. In particular, two characteristics of the expenditure patterns were increasing resources for social expenditure and expanding the social net to the whole population (see Gelb 2004). In fact, the government developed a substantial social security system with a social pension, a disability pension and a child support grant (see Hirsch 2004). It also steadily allocated an increasing amount of resources to social investment. For example, social security as a percentage of GDP increased from less than 2 per cent in the early 1980s to about 4 per cent in 2003. Similarly, expenditure on health and education increased considerably. More than R5 billion was spent in the last five years on land reform (*Sunday Independent*, 19 September 2004). Significant amounts were spent on housing. Despite the re-orientation of expenditure, the problem of asset accumulation for the poor remains a persistent problem (Gelb 2003).

With hindsight, could government have done more about redistribution? Klaasen (2002) argues that in reviewing South Africa's economic reform strategy from a welfare point of view, the government has not had much choice in a world of increasing globalisation and factor mobility to introduce far-reaching redistributive measures. Notwithstanding this, he argues, a great focus on equity was needed, specifically in the redistribution of assets. He admits, however, that potentially important areas of redistribution are constrained. For example, land reform is based on the willing seller and willing buyer principle, meaning that the pace of redistribution will be slow. Similarly, human capital is likely to be more equitably distributed for the next generation, but 'current inequalities are likely to persist through intergenerational household effects and remaining inequality in school quality' (Klaasen 2002: 631).

SMMEs constitute another important element of redistributive reform. Again, this is an area where several initiatives were present but with limited impact, for reasons that are not completely clear. SMMEs have been actively promoted since 1994 on the grounds that they could play a critical role in both enhancing the competitiveness of the economy and contributing to employment generation and income distribution. Many issues arise in relation to the slow growth of the SMME sector. Some critical findings are that the cost of finance rather than access to it remains a problem, access to product markets is limited in some sectors, and overall economic stagnation in the economy means that demand-side impetus for growth in the sector is limited (see Berry, Cassim, Kesper, Van Seventer & Von Blottnitz 2002).

Not much has been said so far about the labour market and its contribution to growth and employment in the economy. The impact of the labour market on growth is difficult to assess. What is more important, however, is that the theoretical literature demonstrates that labour market policies in most country settings have less of a direct link to growth than to poverty and inequality (Rama 2001).[12]

An assessment of the role of economic policy in effecting better distribution in the economy is made difficult by the myriad of simultaneous policies that may induce counter-effects, and inter-temporal problems as to the short- and long-term impacts of policies, often with worsening distribution in the short run and no obvious evidence that this will improve in the long run. The problem is compounded by the fact that measurement of poverty can take many forms (changes in per capita income, access to services and increases in the minimum wage).

The case for devoting increasing resources to poverty alleviation is made stronger by the fact that the government has not resorted to using, for example, tax policy or the public sector for major labour absorptive purposes. On the other hand, social relief is not sustainable in the long run, and greater attention is needed on tracing the extent to which re-prioritising social expenditures will lead to long-run changes in distribution.

Conclusion

If we agree that the major objective is to get growth up in the economy, our assessment of the first wave of economic reforms ultimately depends on whether policies have really been conducive to growth, and effective in reducing poverty. This, in turn, depends on how much weight one attaches to demand-side or supply-side factors in deterring growth. It is clear that South Africa faces low aggregate demand in the short run and also has a long-term structural supply problem, and these two factors are critical to driving economic growth. However, the long-term structural supply problem is more critical (see Lewis 2001). It is important to emphasise that the South African economy is not experiencing a recession, but a long-run structural decline in growth. This is borne out by a consistently low GDP growth rate for the last two decades (Bhorat & Cassim 2004).

Three important areas of economic reform were identified – macroeconomic policy; industry and trade policy; and regulation, competition and services. In looking at reform, the chapter distinguished between two sets or clusters of policies. First, policies aimed at improving productivity and efficiency. These are very much a *sine qua non* for long-term growth. Second, social policies aimed at addressing the problem of distribution. An important issue that was emphasised was that both supply-side and demand-side policies have limited impact if there are major distortions in the economy, including the skills constraint, problems of trade facilitation and exchange rate volatility, and persisting lack of contestability in output markets. Moreover, many other deterrents to growth, such as crime and the inefficient functioning of parts of the public sector, further entrench the binding constraint that the traditional economic policies have on growth and distribution.

The performance of the South African economy has improved in the last five years, and this may signal positive spin-offs from some of the policy reforms. In fact, current growth levels have been quite remarkable if we take into consideration the low levels of investment in the economy. The key question to ask is what contributes to a socially unstable environment that profoundly affects business decisions and confidence in the economy. Indeed, various firm surveys and other econometric work point to a range of factors that need to be addressed and that policies have not been able to take on directly.

In sum, we are still left with the dual challenge of injecting more efficiency and productivity into the economy while ensuring that distribution does not worsen. These need not necessarily be trade-offs, as may have been implied in the chapter. For these potentially conflicting policies to reinforce each other, we need to chip away at every aspect of policy and fully appreciate their short- and long-run benefits and what role there is for the state in managing distributional conflicts that may arise from more ambitious reform.

One way to move ahead is to identify policies that may be both welfare and efficiency enhancing for the whole economy with no negative distributional implications, except for small interest groups. For example, growth is fundamentally dependent on a range of issues beyond macro, trade or labour-market policies. In particular, the role of institutions, governance, property rights, appropriate regulatory structures, quality and independence of the judiciary, and bureaucratic capacity, which should not be taken for granted in many settings, are of the utmost importance to initiating and sustaining growth.

The actual impacts of these reforms vary, with some likely to have a more direct effect on the growth and efficiency of the economy while others are likely to impact more directly on welfare or poverty.

Notes

1 For a comprehensive discussion of the process of economic reform, see Fanelli & Popov (2003).

2 Most economists, however, would argue that if efficiency leads to more growth this would reduce poverty, in the sense of rising per capita incomes (see Adams 2004). The more critical issue is the extent to which it reduces poverty.

3 This section draws liberally from Cassim & Van Seventer (2004).

4 For a detailed discussion see Kaplan (2003).

5 See Flatters (2003) for an extended discussion of this.

6 Infant industries should show a more rapid rate of cost decline than other industries.

7 For a full discussion of this see Chabane, Machaka, Molaba & Taka (2003).

8 This section draws heavily from Cassim & Teljeurs (2003).

9 Various other studies on South African growth yield similar results to the Goldman Sachs results, demonstrating consistently increasing growth from capital relative to labour, throughout the 1970s to the 1990s.

10 Discussions with Albert Berry.

11 For a more comprehensive political economy analysis of the roots of inequality in South Africa, see Gelb (2003), specifically pages 18–21.

12 The South African labour market debate is too complex to capture here, and is beyond the scope of this chapter.

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5 Macroeconomic reforms and employment: what possibilities for South Africa?

Jonathan Michie

Introduction

Ten years ago, a vision for economic development in post-apartheid South Africa was set out by the ANC in its Reconstruction and Development Programme and by the Macroeconomic Research Group. The economic policies pursued by the ANC government have been more cautious and orthodox. The results have been positive, in so far as economic and political stability has been maintained, but there is a continuing legacy of unemployment and underemployment, as well as continued inequality. The key question is whether these problems of unemployment and inequality can be tackled without threatening financial stability.[1]

The June 2003 Growth and Development Summit (GDS), conducted under the auspices of the National Economic Development and Labour Council (Nedlac), agreed a target of halving unemployment by 2014. But how can the necessary degree of investment be achieved? Six areas that may be relevant to finding an answer, and which deserve a continuing policy effort, are: firstly, the use of targeted interest rates; secondly, the use of foreign direct investment (FDI); thirdly, acting on investment levels directly; fourthly, encouraging the '3rd Sector'; fifthly, public works; and sixthly, the development of 'high-commitment work systems'.

A better-trained workforce combined with an appropriate organisation of work can usually improve organisational performance, and if the workforce is committed and motivated, productivity will be further raised. For this to translate into output and employment gains requires demand to rise faster than productivity; and for this to be combined with stable or falling inflation requires cost-absorbing new capacity and innovation.

To be sustainable, the country's productive infrastructure needs to be continually renewed. This links to education, housing, FDI, entrepreneurship and an almost endless range of inherently interrelated economic and social factors. The key point is to understand that these links are there, and that they ought properly to be the focus of active and joined-up policy development. Within this context, detailed research and policy work is necessary to advance our knowledge and understanding of how such policy can best be developed in each of these areas within the context of current-day South Africa.

Create employment or contain inflation?

There is no clear consensus within economic theory about the inflation–unemployment relationship. In so far as there has been a dominant view, this itself has altered over time. As for the theory that informs the anti-inflation activities of central banks, this is rarely made explicit. Thus, for example, when the South African Reserve Bank (SARB) raises interest rates in the face of inflationary concerns, is this in order to reduce the money supply, which is thought to be a direct determinant of inflation, or is it to reduce consumer and/or investment demand and hence slow down the economy, or are other causal processes believed to be at play?

Keynesianism and the Philips curve

During the Keynesian consensus of the 1960s, the macroeconomic role of governments was generally thought to be to maintain full employment and stable inflation, along with economic growth, balanced trade, the provision of welfare state services, and possibly some redistributive (egalitarian) goals. The key beliefs as regards the unemployment-inflation relationship were, firstly, that it was possible to achieve both goals (i.e. to achieve and maintain full employment, without inflation accelerating) and, secondly, that there was some degree of trade-off, but within acceptable ranges, as regards both unemployment and inflation. In other words, it was thought possible to eliminate unemployment while maintaining broadly stable inflation rates.

Of course, even during this era of full employment, there was always some degree of unemployment. In part, this was just the 'frictional' unemployment of people moving from job to job with a period of unemployment in-between. There might also have been more serious 'pockets' of unemployment in certain regions, but this was regarded as a problem for regional policy to tackle. The 'demand deficient' unemployment of the 1930s, where people were unemployed because the level of aggregate demand in the economy was below that required to fully employ the workforce, was thought to be a thing of the past.

In this context, if inflation rose, it was interpreted in one of two ways. Firstly, it might be due to some exogenous factors, such as increased international raw material prices, which would either pass or could be dealt with or, secondly, if there was persistent inflationary pressure, then this would be interpreted as evidence that the economy was overheating, with 'over-full' employment. Keynes had spelled out the policies that would be required to maintain full employment, but he had also stressed the importance of preventing aggregate demand from rising above its full-employment level, as this would lead to inflation.

Thus, such inflation was interpreted as having been caused by the economy having moved up the Philips curve to the left, with higher inflation and lower unemployment. What was needed in such a situation was to move back down the Philips curve to the right, to the previous levels of unemployment and inflation.

This trade-off between unemployment and inflation was depicted by the Philips curve, after Philips (1958) plotted unemployment against the rate of (money wage) inflation for the United Kingdom. Philips actually used pre-World War I data to construct the curve, which was then superimposed on the inter-war data, which fitted, although in a clustered fashion, with the data from the 1920s generally above the curve and the data for the 1930s generally below. Lipsey (1960) did test for inter-war data, but without significant results for unemployment.[2]

Interestingly, though, the impact that this view of the world had on policy responses to either inflation or unemployment tended not to be for governments to simply choose to move to a different point on the given trade-off curve. In other words, were inflation to rise, it might be thought that the Philips curve model would suggest that this must be due to the economy having moved up the Philips curve to the left, so the policy response should be to move the economy back down to the right, increasing unemployment. However, the Philips curve tended not to be interpreted so mechanistically. This may be, in part, because reality never did fit the curve particularly closely. Thus, if inflation rose, it would often be the case that there would have been no concomitant fall in unemployment. Instead, it would have been caused by a rise in international fuel prices, or in wages, or in taxes imposed by the government. Therefore, policies would tend to be introduced to tackle these problems directly, without seeking to raise the rate of unemployment in search of a different 'trade-off' point. Thus, particularly in the UK of the 1960s and 1970s, prices and incomes policies might be introduced, whereby wage rises would be limited to a certain ceiling, possibly with additional payments allowed if matched by productivity gains (so that unit labour costs did not rise), and likewise firms would be forbidden to raise prices by more than a certain prescribed percentage.

In other words, if inflation began rising, the policy reaction would be to attempt to restrain inflation directly, through prices and incomes policy, rather than to allow unemployment to rise. The exception was if the economy was thought to be genuinely overheating, with over-full employment, in which case monetary and/or fiscal measures would be used to slow down the economy and allow employment to fall back to its 'full-employment' level.

Thus, the policy for maintaining full employment was broadly believed to be to maintain levels of aggregate demand sufficient to ensure that the available workforce was fully employed. In addition, it was thought likely that some unemployment would be caused by regional problems and industrial restructuring, which should be tackled through regional and industrial policies. If demand-deficient unemployment was thought to be appearing, then the government would take policy action to boost demand. This might include fiscal and interest rate policies, but would not be limited to these. It would also include, for example, regulatory changes to affect how easily consumers could buy goods on credit.

Likewise with inflation, if this rose, the response was not always to increase interest rates with a view to slowing down the economy and thus increasing unemployment, in order to move to a new unemployment–inflation trade-off. On the contrary, inflation would be targeted directly, for example through prices and incomes policies. Generally, these would start with a freeze on increases in wages or prices, for say six months, in order to break any inflationary spiral, following which wages could only be increased by either some flat rate or percentage amount, or in some cases a mixture of the two. Generally, wage rises above these limits would be allowed if accompanied by productivity deals. Provided productivity rose, then the increased wage would not necessarily increase unit labour costs or prices.[3]

To the extent that such policies were effective, in either reducing inflation without increasing unemployment, or reducing unemployment without increasing inflation, then clearly this would affect the shape of any Philips curve. Some trade-off might remain, though, since when the economy grows faster and unemployment falls, it becomes easier for workers to gain wage rises and for firms to raise prices, either to pass on increased costs or even to raise profit margins. This is particularly so if bottlenecks occur because of insufficient capacity. If there is a shortage of a particular type of skilled labour, for example, then their wage rates are likely to be bid up as firms compete to attract and retain them. If demand outstrips supply for office or other space, rents will be bid up. And so on. The key to achieving sustainable, non-inflationary growth is to ensure that industrial and economic capacity expands in line with demand.[4]

Monetarism and the 'natural rate'

The first Thatcher government was elected in Britain in 1979 on the promise of squeezing inflation out of the system. The policy instrument for doing this was to be control of the money supply. The theoretical framework was Milton Friedman's monetarism and associated 'natural rate of unemployment'. This posited that there was no Philips curve trade-off between unemployment and inflation over the long run. Any such trade-off would be a short-term effect, whereby lowering unemployment below its natural rate would lead not just to *higher* inflation but to *accelerating* inflation. Since accelerating inflation is not sustainable, unemployment would need to be allowed to increase back to the natural rate to bring the rate of growth of inflation back to zero. To reduce the rate of inflation itself (as opposed to its rate of growth), unemployment would have to rise above the natural rate.

The reasoning was that it was only at the natural rate of unemployment that people's expectations about inflation would match the actual outcomes. If unemployment fell, then inflation would rise as one moved up the Philips curve but, crucially, this was argued to be a short-term possibility. Any given Philips curve would be based on a single expected rate of inflation, namely, the rate of inflation that the (short-run) Philips curve in question demonstrated at the natural rate of unemployment. If one moved up that curve to the left, with unemployment falling below the 'natural rate', then inflation would rise above that expected rate. Once people realised that inflation was higher than they had expected, they would adjust their behaviour accordingly. In particular, they would adjust their wage demands upwards. As expectations of future inflation adjusted upwards, one would move up to a higher short-run Philips curve corresponding to this higher rate of expected inflation. So long as the rate of unemployment remained below the natural rate of unemployment, it was argued, inflation would continue to rise, with actual inflation always outstripping expectations, which in turn would be revised upwards, a process that would itself give a further upward twist to inflation.[5]

Thatcher's premiership ended with inflation at around the same level she inherited in 1979. The annual increase in the Retail Price Index stood at 10.3 per cent when the first Thatcher government took office in May 1979, and when Mrs Thatcher left office in November 1990 it was 9.7 per cent. The initial belief that targeting the growth in the money supply directly (in terms of the quantity of money) would eliminate inflation gave way to old-style policies of high interest rates and deflation combined with labour-market policies to restrain wages.

The non-accelerating inflation rate of unemployment

The problem for the monetarist model was that in the equation MV = PT, there was no logical reason why the direction of causation should run from M (the money supply, or its rate of growth) to P (the price level, or inflation), T being the number of transactions. There was also no necessary reason for V (velocity of circulation) to remain constant if M was altered by policy intervention, even if it had been constant previously (Goodhart's Law).

These weaknesses in the theory and problems with the practice led to monetarism being replaced by the non-accelerating inflation rate of unemployment (NAIRU). Like the natural rate and unlike the original Philips curve, the NAIRU was taken to be vertical, allowing only one rate of unemployment at which inflation would be stable. But like the original Philips curve, and unlike the natural rate, the theoretical framework for the NAIRU was not market-clearing equilibrium but rather a recognition that wage and price setting are influenced by market structure and bargaining power. Different levels of unemployment will produce different degrees of bargaining power on the part of labour, and hence correspond to different degrees of wage pressure, which results in just one level of unemployment (the NAIRU) corresponding to stable inflation, with unemployment either higher or lower, resulting in a lower or higher bargaining power, respectively, and hence falling or rising inflation.

The NAIRU approach assumes that as output and employment expand in an upswing, the bargaining wage will rise as labour becomes scarcer and the bargaining position of employees strengthens. The 'feasible' wage is defined as the wage that firms are able to pay, without having to raise prices. In the upswing, as the bargaining wage rises, the feasible wage fails to rise in line. The point where the two curves (for the bargaining wage and the feasible wage) intersect will be an equilibrium at which employers will be able to pay the bargaining wage without having to raise prices. There will be no tendency for inflation to rise (or fall). Hence, the level of unemployment that this point represents will be the NAIRU.[6]

Therefore, the level of the NAIRU can be altered by any factors that are able to shift either the feasible or bargaining wage. These factors include labour-market structures and institutions such as trade unions and industrial relations systems. If these institutions remain unchanged, then they will reinforce the existing NAIRU. On the other hand, policy can reduce the NAIRU, and/or reduce inflation, by acting on such factors.

The NAIRU approach thus emphasises how policy might shift the NAIRU, rather than accepting it as 'given'. If competition between firms can be enhanced through, for example, reducing the degree of industrial concentration, thereby reducing firms' mark-up over costs, then the economy will be able to operate at a lower rate of unemployment without inflation rising. Likewise, if aggregate investment could be increased, raising productivity and competitiveness, then the feasible wage that firms would be able to pay would rise. This again would allow the economy to operate at lower rates of unemployment, without inflationary pressures developing. Enhancing productive capabilities shifts the NAIRU curve to the left.

The implication of this for policies to cut unemployment without risking inflationary pressures is that the bargaining wage has to be reduced or the feasible wage has to be increased. The bargaining wage could be reduced through a national labour accord for this purpose. The feasible wage can be raised by upgrading productive capabilities, productivity and value added, so that firms are able to pay higher wages.

Beyond NAIRU

Within the NAIRU approach, as unemployment falls, the 'feasible wage' that employers can afford to pay without increasing prices fails to rise. It is supposed that as firms increase their level of output, productivity fails to rise. But in economic expansions, output per head generally does rise. This increase in productivity is explained by the fact that capital is operated at a higher level of utilisation as demand increases and firms invest in more modern and productive equipment. The more reasonable assumption that productivity, and hence the 'feasible wage', increases with output thus undermines the NAIRU approach. If increased capacity utilisation and, over the longer term, an increased and more technologically advanced capacity allows a growth of the feasible wage, then there may be no unique 'equilibrium' point (NAIRU) with only that one level of unemployment associated with non-accelerating inflation. Thus, even if the bargaining and feasible wages happened to coincide at a given level of unemployment, if unemployment falls with the feasible wage increasing (due to increased productivity) more than the increase in the bargaining wage, then such a model would actually predict that the reduction in unemployment would result in inflation falling rather than rising.[7]

While the NAIRU appears to suggest that unemployment cannot be cut below its non-inflationary rate without rising inflationary pressures, in practice the sort of economic modernisation policies that governments in any case tend to promote – to encourage investment, research and development, and training – are precisely those that would boost the feasible wage and hence bring down the NAIRU.[8]

Segmented labour markets

In the non-market clearing world of the NAIRU, the labour market is recognised to be segmented in various ways: between 'insiders' and 'outsiders', between the economically active and inactive, and by the whole range of factors that tend to differentiate labour in the employment market. The theory of labour-market segmentation actually pre-dates that of the NAIRU, and includes broader sociological and institutional factors than are usually included in the NAIRU literature. This segmentation analysis:

> disputes the neoclassical view that the structure of pay reflects primarily the structure of relative labour efficiency, and argues that the number of good jobs in the economy is mainly determined by the development of the industrial and technological structure largely independent of labour supply … The existence of segments of the labour force with different labour market status may also create the situation where jobs are classified not by their content but according to the labour market position of the workers normally undertaking the work. Thus jobs are secondary because they are performed by workers generally considered secondary: jobs are regarded as unskilled because they are feminised and not feminised because they are unskilled. Moreover, the existence of non-competing groups may be of considerable social and political importance for the maintenance of labour market segmentation. The role of class divisions and racial and sexual discrimination as a means of legitimising and enforcing inequalities in the labour market is central. (Craig, Rubery, Tarling & Wilkinson 1982: 77)

This segmentation of labour markets means that policy goals of targeting certain levels of unemployment need to take account of the various segmented labour markets and what the public policy goals should be with respect to each. It also means that a prerequisite for such a policy agenda is detailed research into the segmented labour market: what those segmented labour markets are in any given country at any particular time; what the levels of pay, employment, productivity, labour turnover and so on are in each of those markets; what the degree of mobility is between the various segments of the labour market; and, crucially, how policy might be tailored to tackle the specifics that such research uncovers.

Competition policy and regulated prices

When market-clearing assumptions are dropped, and the reality of industrial concentration and mark-up pricing is acknowledged, then competition policy becomes relevant to the issue of inflation. Certainly, there has been renewed emphasis in the UK and across Europe recently on how increased competition can drive down prices, as well as deliver other economic benefits, including increased employment:

> It is worth emphasising the commitment of the Labour Government since 1997 to increased product market competition. There was a new Competition Act that

> included significantly increased powers for the Office of Fair Trading. Merger policy was firmly driven by competition considerations. In the utilities competition was pursued rigorously, with the fostering of domestic competition for gas and electricity and the introduction of the New Electricity Trading Arrangements. (Corry 2003: 17)

The degree of market concentration is clearly an empirical one, which in any given country will vary between industries and over time. The impact of market concentration is not just that firms will be able to charge higher prices than would otherwise be the case, but also that their reaction to events will differ – they may be more able to pass on increased costs, thus exacerbating an inflationary spiral, and may also be less responsive to increased interest rates, or at least the nature of their response may be different, postponing investment rather than cutting prices to maintain market shares.[9]

This is, therefore, an area that would require detailed research on an industry-by-industry basis to determine the degree of market concentration, and on a firm-by-firm basis to establish the implications of any such concentration on pricing and investment decisions in the face of changes in input costs or interest rate changes. Clearly, the most important industries in this regard are those with pricing behaviour that can have economy-wide effects – such as food, energy and the utilities.[10]

The specifics of South Africa

There are questions over the reliability of data on unemployment in South Africa, but there is no doubt that unemployment is a serious problem.[11] The 2003 GDS, held under the auspices of Nedlac, agreed on actions to accelerate the growth and development process, and to halve the rate of unemployment by 2014.

What implications does this commitment have for inflation? There are two possible connections. Firstly, it may be that achieving such a reduction will require either a cut in interest rates or a fall in the value of the rand against other currencies; in either case, this might tend to raise the rate of inflation. Secondly, it may be that a fall in the level of unemployment might itself have inflationary consequences. This might operate through the NAIRU-type processes of increased wage pressures. Alternatively, there may be insufficient productive capacity in the economy to sustain the higher levels of employment, in which case inflationary pressures would result from supply shortages. We consider these labour market, capacity and interest rate issues in turn.

Unemployment, wage growth and productivity

In an analysis of South African labour-market processes, and in particular the relationship between unemployment, wage growth and productivity, Wakeford (2003) found that unemployment 'has little or no effect in terms of restraining real wage growth'. Wakeford found that increased productivity allowed, and led to, an increase in real wages, although not fully proportional, so that, had this been tested for, we would expect that part of the gains from productivity would feed through to increased profits.

The implications for inflation and unemployment are as follows. Increased productivity allows increased real wages. This can come through one of two routes. Increased productivity may boost profits and wages. Alternatively, increased productivity allows prices to be cut, hence increasing the real value of any given money wage. Either way, the result will be to prevent or at least reduce pressure for increased money wages. The target real wage will have been delivered through increased productivity. Thus, the outcome will be reduced inflationary pressure.

The degree to which increased productivity can pay for increased wages without the need to increase prices will depend on how costly or otherwise the increased productivity was to the company. At one extreme, a gain in productivity might be entirely costless, for example if it resulted simply from being able to expand output in response to increased demand at a time when resources were otherwise lying idle. On the other hand, if the rise in productivity is the end product of costly investment in research and development, product and process development, work reorganisation and staff training, then these additional costs might absorb the whole of the increased value added resulting from the increased productivity.

The outcome on employment will depend on the extent to which the increased productivity leads to increased sales. These can come from increased exports or increased domestic sales, which can be achieved because the increased productivity allows for lower prices or better quality or both. In some cases, the increased productivity will be associated with innovation, in which case whole new markets may be created. Thus, increases in output per head (productivity) tend to be associated with increased sales and hence higher output. The relative size of these two effects (increased sales and higher productivity) will determine whether the increased output levels will involve higher or lower employment.

Thus, there is no reason to suppose that achieving lower unemployment would lead to inflation. That will depend on the behaviour of a number of other economic variables, including the 'bargaining' and 'feasible' wage levels. Lower unemployment might even be associated with lower inflation. The key issue is whether the economy's productive capacity is expanded in line with increased employment, with the necessary levels of investment in new infrastructure, capital equipment, research and development, and training.

Investment and productive capacity

Whether firms will increase or reduce their prices as demand for their goods and services rises depends crucially on whether they are expanding their own productive capacity. Increased productivity from newer 'vintages' of capital equipment and more modern equipment and productive facilities, generally, may lead to falling costs and prices.[12] If firms also have an incentive to cut prices to gain market share, then this may have a further counter-inflationary impact.

On the other hand, if the expansion in employment occurs without sufficient expansion in investment, this may lead to available capacity becoming fully utilised, creating inflationary bottlenecks. The term 'investment' covers a range of activities – not just corporate investment in premises, machinery and equipment, but also investment in infrastructure, in research and development, and in training and human capital development. In these areas, the government and other public agencies have a part to play.

The government needs to facilitate the necessary developments so that this economic capacity, broadly defined, can be enhanced in a balanced fashion across the economy. This is the surest way to bring about the desired non-inflationary growth in output and employment.

Interest rates, investment and demand

Will the necessary investment decisions be made and sustained in the face of high interest rates? The preferred outcome would clearly be to enhance economic capacity so as to reduce inflationary pressures, thus avoiding the need to raise interest rates. However, if for whatever reason inflation rises, then there is indeed a danger that if interest rates are raised in response, this may choke off the capacity-enhancing investment that is required to increase employment in the economy.[13]

Therefore, to increase interest rates to reduce inflation is, at best, a rather 'blunt instrument', working as it does through depressing the real economy. If it is the only option, then so be it; but, if the actual processes can be identified, it may be that more targeted policy could achieve the same anti-inflationary gain with less depressed real output pain. In other words, the increased interest rate will impact on various sectors of the economy. Each will suffer some degree of 'pain' in the sense of increased costs of investment and possibly a reduction in their expected future sales if the increased interest rate impacts on demand. Each may also, therefore, reduce their employment or planned employment. In each case, there may be some downward effect on prices in that sector, but the size of these effects may differ from sector to sector.

Firstly, different sectors may experience different degrees of 'pain'. Secondly, for any given fall in output, the corresponding reduction in employment may differ. Thirdly, for any given fall in output and employment, the degree to which there is any counter-inflationary gain may differ.

If the size of these three effects were known on a sector-by-sector basis, then it might be possible to target policy more accurately, either by taking action to slow down those sectors from which most inflationary gain would be expected, or by attempting to protect those sectors from which there would be little to be gained from squeezing. The latter might be attempted, for example, by somehow sheltering those sectors from the impact of an increase in the general rate of interest.

If a rise in interest rates depresses investment – either directly, because of its increased costs, or indirectly by depressing the general level of activity, which will cause investment plans to be scaled downward – then this will lead to a lower level of economic capacity than would otherwise have been the case. In addition, the capital stock will be older, on average, than it would have been had there been greater investment in new machinery. Likewise, if investment in people is scaled down, then the labour force may be less skilled than otherwise. The first effect of a lower level of economic capacity is that in any subsequent economic expansion, capacity constraints and bottlenecks are likely to be hit sooner than would otherwise have been the case, and these capacity constraints and bottlenecks are generally sources of inflationary pressure.

The second effect of depressed productivity is that firms are left less able to absorb any increase in costs that might come from raw material prices, wages or some other source. A greater proportion of any such increase in input costs is likely to be passed through in increased output prices. These longer-term effects of increased interest rates may leave the economy less well placed to deliver non-inflationary growth in the future, despite any short-term effect of depressing the rate of inflation.

Policy implications

The policy implications of the above are as follows. In the first place, achieving increased productivity is an important way of maintaining low rates of inflation. If input costs are rising, then a firm with rising productivity may be able to absorb these increased input costs, while a firm with stagnant productivity will have to pass them on in increased prices. Increased productivity, though, generally requires investment in capital and people. Hence, it is important to keep interest rates as low as is practically possible to encourage such investment. High interest rates may also dampen growth rates and, perhaps even more crucially, expectations about the growth of demand. If so, this will tend to inhibit the sort of investment and expansion plans that generally deliver increased productivity.

There is a paradox. Interest rates are raised to avoid inflation, but productivity-enhancing investment and expansion may be inhibited. Yet, these productivity gains are crucial for avoiding inflationary pressures over the longer term. Thus, the short-term anti-inflationary gain from raising interest rates may lead to longer-term inflationary pain.

The key policy question for South Africa, therefore, is: If interest rates were cut in order to encourage productivity-enhancing investment and expansion, would this lead to a short-run rise in inflation, before the inflation-absorbing benefits of the increased productivity came on stream? If the answer to this is yes – that there would be a danger of a short-term rise in inflation – then are there other policies that might be pursued to contain inflation in the short term? Are there policies, other than the Reserve Bank cutting interest rates, that might be pursued to encourage increased productivity and expansion?

Policies to contain short-term inflationary pressures

Of course, the Reserve Bank's interest rate decisions do impact upon the exchange rate, and this also affects inflation. However, to the extent that this is pursued as a short-term anti-inflation measure, the implications for interest rate policy are similar to the use of interest rates to target inflation directly – an increase in interest rates aimed at curbing inflation will also tend to strengthen the value of the currency, and this, in turn, will have an anti-inflationary impact in the short term. The medium- and longer-term effects may include the same problems as are caused by the high interest rates themselves, namely a depressing effect on output and investment, and thus on capacity levels.

In principle, the value of the exchange rate can be influenced by exchange controls, although in practice South Africa is not likely to consider their use.

Other possible anti-inflationary measures have already been referred to:

- Incomes policies have been used extensively in the past across the world, but have generally fallen out of favour. There may be scope for developing a national accord on wages and prices, but international experience suggests that this would most likely only work if it is part of a more general package of measures aimed at securing non-inflationary growth of output and employment.
- Administered prices can and have been used by governments to restrain inflation.
- In some cases, increased prices can be offset by cuts in taxes on affected goods, but this is likely to be only a short-term option, appropriate perhaps if there are particular inflationary pressures that are believed to be one-off or short-term, and which could be counteracted in this way.
- Finally, there is the point mentioned earlier about increasing competitive pressures in markets. This may be particularly important in cases where input costs rise, for example because of increased fuel prices. In an uncompetitive sector, there will be a tendency to pass on increased costs in price rises. In a more competitive market, this will not be done without serious thought about what competitors might do.

Policies to boost productivity and expansion

If the above policies are not thought to be adequate to allow the Reserve Bank to cut interest rates to the level that would maximise productivity-enhancing investment and expansion, then are there other policy initiatives that could be taken to act directly on such investment decisions? Six areas that may be relevant, and which deserve a continuing policy effort, are considered next.

Targeted interest rates

It is important to recognise that the interest rate actually faced by any corporation that is considering whether or not to embark on what might be a costly and long-term investment programme will vary from company to company. In other words, we cannot read off directly from the interest rate set by the Reserve Bank to that which will be influencing these key corporate decisions, on which the future productivity levels of the economy will depend. The actual interest rates faced will depend on a range of factors, such as a particular company's credit rating.

The important point for this chapter, though, is that there may be some scope for public policy to circumvent the potential damage that high interest rates might otherwise have on investment decisions by providing lower interest rate arrangements for specific projects, along the lines of the cheap finance that has been made available in the past by the Industrial Development Corporation.

Determinants of FDI

The determinants of investment by overseas corporations may differ from those of domestic companies, not least because in the former case there is the decision of whether to invest in the country at all, or whether to continue with any existing investment, and also, crucially, to decide on where in the value-added chain the investments in any one economy should fit within the multinational corporation's overall production networks. These latter decisions will determine not just the degree of multinational enterprise investment in the domestic economy, but also its nature and the extent to which it contributes to, say, research and development or human capital enhancement.[14]

The impact of multinational enterprise activities on the generation and upgrading of employment and on the building up of skills in host countries varies:

> according to the type or motivation of FDI, the industries in which multinational enterprises invest, the strategies they adopt, and host country conditions. They also depend significantly on the policies of host countries on FDI for increasing employment quantity, improving employment quality and strengthening human capital resource capabilities and for minimizing any negative effect that FDI may have in these respects. (UNCTAD 1999: 258)

Determinants of investment

One might expect investment decisions to be determined by the state of aggregate demand, on the one hand, and the cost of capital, on the other. However, even given the level of these determinants, the actual level of investment has still been found to vary over time, for the UK at least (Driver & Michie 1998). Such variation may be due, in part, to the prevailing corporate culture, which will be influenced by factors such as past experience. There may be ways in which public policy can encourage a more investment-friendly corporate culture, given the rate of interest; in other words, to encourage higher levels of investment without having to reduce the rate of interest. Research within the South African context would need to estimate how far investment decisions are actually determined by interest rate and demand levels, and how far other factors influence these processes (see Gilbert 2003).

A key determinant of the scale and scope of investment decisions will be the expected growth of the markets that firms expect to be selling in. The greater the expected growth in demand, the greater will be the planned investment to meet it. The scope and nature of those investments are also likely to be affected. Investment in new technology is sometimes considered to be job destroying. The reason for this perception is obvious when high levels of unemployment are accompanied by new technology and mechanisation replacing employees with machinery. On the other hand, every period of rapid output and employment growth in history is also one of technological advance and investment in labour-saving new technology. This is partly why output growth tends to lead to productivity growth.

So what is the link between new technology and jobs?[15] The relationship is a complex one, but investment decisions will be affected by expected growth rates in two ways: the higher the expected growth of demand for a firm's products, the higher will be the firm's investments, but if demand is expected to be low, firms will concentrate on trying to survive. This means not only that investment levels will be lower, but also that the nature of the investment projects will be different. There will tend to be less investment in research and development and new products, and a greater emphasis on cost-saving investment through process innovation and downsizing. There is, thus, a double incentive to try to maintain expected growth of demand: firstly, to encourage investment and, secondly, to encourage product innovation and market-creating investments, rather than defensive cost-cutting investments. This means avoiding, if at all possible, monetary policies that might slow the growth of demand and bias firms towards the more defensive mindset. There may also be more proactive opportunities for industrial, labour-market and innovation policies to encourage firms to invest in the high-road option of product innovation, research and development, and skills formation, so that new technology is accompanied by expanding and even new markets, with increased output and employment.

Encouraging the '3rd Sector'

In Europe, the '3rd Sector' operates alongside the public and private sectors, and is constituted of 'social enterprises', co-operatives, 'mutuals', NGOs, charities and so forth. The importance of this sector varies between countries, but in some, such as Italy, it is fairly significant in terms of both output and employment.[16]

In South Africa, this sector is relatively small in terms of employment. However, the '3rd Sector' is significant in terms of the unemployment–inflation relationship, precisely because the existence of these organisations is due to a rather different logic than generally applies to the private sector. Thus, if the goal is to expand employment in a non-inflationary way, and if private-sector employment is broadly influenced by interest rate policy, then, given whatever interest rate is prevailing, the '3rd Sector' potentially represents an opportunity to add to the amount of employment at that rate of interest. In other words, it may represent economic activity and employment that would not otherwise have been forthcoming at that rate of interest.

Any development of this sector is likely to result in a win-win situation as far as the employment–inflation trade-off is concerned. There may be particular potential for expansion of this sector in delivering, and participation in, social services, construction, and food production and distribution, for example with producer co-operatives in the supply chain for food products (Altman 2003b).

Public works

The use of public works to tackle unemployment is usually associated with John Maynard Keynes' original argument that the workings of free market economies will not of themselves result in full employment. In *The General Theory of Employment, Interest and Money* he argued that the level of unemployment will depend on how much employment is required to produce the level of goods and services that are, in aggregate, demanded (or, even more precariously, on the level of demand that companies expect to face). If the level of aggregate demand is below that required to fully employ the entire workforce, then unemployment will result; and expectations can prove self-fulfilling, in either a positive or negative fashion. If the 'animal instincts' of investors take a cautious turn, then the resulting cutbacks in investment and orders will themselves create a fall in demand, which will further dampen expectations. What is required for a return to full employment is a boost in effective demand, and public works is one way in which governments can help to deliver the necessary boost to demand.

More recently, attention has focused on how to attract foreign capital, and on how to improve the domestic economy's international competitiveness. An efficient, productive infrastructure – transport, communications, education and training, security, and so on – is key. Here again, the role of public works is vital, given the 'public good' nature of much of this infrastructure work.

Public works thus play a dual role: on the one hand, they improve the underlying economic infrastructure and, on the other, they can be part of an active labour-market policy.

There are short-term choices to be made, though, as to how labour- or capital-intensive civil works should be. The Department of Public Works is currently looking at whether a clear commitment could be given by the government to ensure that such works are made as labour intensive as is practicable and appropriate.

The GDS saw the government agreeing to extend the public works and infrastructure investment programme that was already to be found in the Medium Term Expenditure Framework. For some, the benefits from this are no doubt thought to be the job-creation effects of the programmes themselves, as well as the contribution that the works might make to living standards if they are delivering housing or water, for example. However, such programmes, particularly those involving the productive infrastructure, do also play an important role within the unemployment–inflation relationship, by creating the conditions for higher productivity over the medium and longer term, hence alleviating the danger of inflationary pressures at the same time as creating the conditions for higher levels of employment:

> To promote sustainability and a virtuous circle of growth, such a programme will require a detailed understanding of the dynamics of the targeted industries, in order to ensure that increased expenditure is matched by enhanced supply capacity, including appropriately skilled and accredited labour. This requires an industrial strategy for each sector, in addition to the more narrow focus on increasing the demand for goods and services through the expansion of government expenditure. Government can only go so far in stimulating jobs directly. Ultimately, deeper linkages are required. It is often forgotten that employment is about all the linkages that occur in response to an investment. The more credible and sustained a programme is, the more the private sector will respond, not just by delivering the procured service, but by mobilizing investment resources to provide inputs, logistics, and related goods and services – these are the desired spin-offs that are required to enhance the ability of the economy to create more jobs. (Altman 2003b: 8)

Thus, public works can influence the employment–inflation agenda in a number of different ways. Firstly, public works can directly affect the level of unemployment, via their direct employment effects. Secondly, by enhancing the productive infrastructure, South African industries can be made more competitive internationally and, consequently, may increase their market shares in export as well as domestic markets (in competition with imports). This will lead to increased employment. Thirdly, by addressing real needs within society, public works may help foster and develop new markets and areas of economic activity that otherwise would not have existed, and this might prove sustainable over the longer term.

High-commitment work systems

What have been termed 'high-commitment work systems' aim to enhance employees' skills and productive capacity, motivation and commitment, and opportunities to raise productivity. There is evidence that an appropriate mix of human resources and other practices can enhance productive outcomes (see, for example, Michie & Sheehan-Quinn 2001).

Where employment is expanded as a result of such policies having been successfully pursued, this would most likely be in the context of increased output and productivity, thus creating the conditions for non-inflationary, or even actively counter-inflationary, economic expansion. Of course, human capital development is at a far lower level in South Africa than in the USA or Europe.[17] However, this does not mean that high-commitment work systems will not be relevant. Firstly, at any workplace, the degree of motivation is important for a range of reasons, including retention, absenteeism and so on. Secondly, for some sectors of the economy, namely the high value added, manufacturing, traded goods sector, such human resources practices will be key in ensuring the sort of productivity and quality levels, and the degree of innovation that is necessary to compete internationally.

Further research

This chapter has sketched out the key issues that need to be analysed to establish how the target of halving unemployment might be achieved in a non-inflationary manner, as follows:

- What would high-commitment work systems look like in the South African context? Might employee share ownership have a role to play in enhancing employee commitment and motivation, and hence work effort and productivity?
- How might corporate investment decisions be encouraged to enhance productive capacity in order to expand employment in a non-inflationary context, in particular in the face of possible interest rate rises in the future?
- How might the co-operative, mutual and social sectors of the economy be expanded so as to provide employment through enterprises providing goods and services that might otherwise not have been provided (i.e. as additional rather than replacement economic activity)?
- The causal mechanisms whereby an increase in interest rates is thought to impact on the economy need to be researched and established empirically.
- Policy needs to take account of the segmented labour markets – what those segmented labour markets are at any particular time; what the levels of pay, employment, productivity, labour turnover and so on are in each of those markets; what the degree of mobility is between the various segments of the labour market and, crucially, how policy might be tailored to the specifics that such research uncovers.
- The impact of market concentration is not just that firms will be able to charge higher prices than would otherwise be the case, but also that their reaction to events will differ – they may be more likely to pass on increased costs, thus exacerbating an inflationary spiral.
- Understanding the role that FDI plays within the South African economy requires detailed research on not just the degree of such investment but also its nature.

Conclusion

Discussing whether monetary policy is different for the SARB than for other central banks, Ian Plenderleith (2003), a deputy governor of the Reserve Bank, concludes that while the task is broadly comparable, the context is different. One of these differences is the greater need, in South Africa, to establish policy credibility, so the SARB should be more cautious than central banks elsewhere. On the other hand, another difference Plenderleith notes is the greater susceptibility of the South African economy to supply shocks, and 'higher interest rates will not help to make the maize crop grow higher'.

While central banks tend nowadays to prioritise the policy target of achieving and maintaining a low rate of inflation, within or around some inflation target, in practice other factors undoubtedly impinge on their decision-making processes to some degree – the level of the exchange rate, the rate of growth of the economy, the rate of unemployment and so on.[18] Padayachee (2001) argues that this broader agenda should be made more explicit. Epstein (2002) asserts that employment should be made an explicit target; in effect, though, this would simply be to shift the *emphasis* from inflation to employment, while retaining a focus on the whole range of economic variables being targeted (or at least influencing the decision-making processes), since Epstein acknowledges that any employment target would need to be subject to some inflationary ceiling or limit. However, even such a shift in emphasis, Epstein suggests, would help change the culture within the SARB and elsewhere, leading to research becoming more focused on the employment consequences of policy actions.

It is certainly true that the general macroeconomic and public policy culture can play an important role in setting the agenda for research and policy development, encouraging certain avenues to be explored and closing down others. It is also the case that if there is going to be a serious effort across the economic, political and social community to achieve major policy goals, such as the halving of unemployment while maintaining the current 3–6 per cent inflation target range, and also pursuing other major goals like black empowerment and employment, it will be important to develop 'joined-up' thinking and action between the various departments and sections of government, other public agencies, quasi-public bodies, the corporate sector, trade unions, community bodies and others.

This chapter has avoided listing the huge number of policy areas that would need to be brought in on any such major policy development, but any one of the few topics mentioned, such as developing high-commitment work systems, would involve a wide range of different actors, across the private and public sectors, and across corporate, trade union and governmental bodies. Just this area alone might involve legislative change, regulatory action, trade union involvement, corporate decisions and so on.

The institutional underpinnings of the unemployment–inflation relationship are key to the functioning of any economy, but they are not simple. Neither are they given or static. These relationships are constantly evolving. They are subject and amenable to change and development. Such change and development can and should be actively fostered, not only to bring about better outcomes for, say, the labour market, but also to contribute to economic development more fundamentally, through the interconnections referred to earlier between such processes and other economic outcomes.

Thus, a better-trained workforce is a classic 'public good'. Combined with an appropriate organisation of work, this can translate into a private good for the employers, and if the workforce is committed and motivated, productivity will be further raised.

For this combination to translate into macroeconomic output and employment gains will require demand to rise faster than productivity; and for this to be combined with stable or falling inflation will require cost-absorbing new capacity and innovation. To be sustainable, the country's productive infrastructure needs to be continually renewed. This narrative could continue through the links to education, housing, entrepreneurship and an almost endless range of inherently interrelated economic and social factors. The key point, though, is to understand that these links are there, and that they ought properly to be the focus of active and joined-up policy development.

Notes

1 I am grateful for advice and suggestions from Dr Miriam Altman, Jackie Cook, Dr Evan Gilbert, Dr Simon Roberts and Professor Vishnu Padayachee. I have also drawn on work undertaken jointly with Professor Frank Wilkinson.

2 See Michie (1987), which discusses this in more detail.

3 For a detailed discussion of the theory and practice of incomes policies, see Parkin & Sumner (1972).

4 For a detailed discussion, see Michie & Grieve Smith (1996).

5 For a detailed analysis and discussion of the natural rate of unemployment hypothesis, see Cross (1995).

6 For a detailed textbook presentation and discussion of the NAIRU, see Carlin & Soskice (1990).

7 For a discussion of the 'natural rate' and NAIRU literatures, see Sawyer (2001).

8 This is assuming, of course, that the NAIRU is vertical. Setterfield and Leblond (2003) suggest that for USA 1990s data it is not, and there is a policy trade-off available. Hodge (2002) failed to detect a stable short-run trade-off between inflation and either unemployment or employment in South Africa (1970–2000) but did find a significantly positive relationship between inflation and growth. Nell (2000) also found that inflation within the single-digit zone may be beneficial to growth.

9 There is a large literature on the pricing reaction of oligopolists, including that around the 'kinked demand curve' (see Michie 2001 and the further references given and discussed there).

10 The Statements of the SARB's Monetary Policy Committee (e.g. 16 October 2003) often discuss the degree to which inflationary pressures have come through from specific sectors.

11 For a discussion of how to define and interpret unemployment and underemployment in South Africa, see Standing, Sender & Weeks (1996).

12 See Salter (1969) for an analysis of the role of investment in economic performance, and a discussion of the 'vintages' model of capital investment.

13 Aron & Muellbauer (2002) find important and persistent effects of high real interest rates, which significantly constrained South African economic growth in the 1990s.

14 See Michie (2002) for further discussion.

15 See Michie, Oughton & Pianta (2002) for a discussion.

16 For a discussion of the 'mutual' sector in the UK, see Cook, Deakin, Michie & Nash (2003).

17 As witnessed, for example, by the large proportion of employees without employment contracts (Altman 2003a).

18 For a discussion of whether inflation targeting is appropriate for South Africa, see Absa (2002).

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6 Operationalising South Africa's move from macroeconomic stability to microeconomic reform

Kuben Naidoo

Introduction

If this chapter is going to be about clichés, let me state immediately that we (myself included) will all become very bored. So, let me put the clichés behind us and get on with the task of contributing to the intellectual engagement on the future path of South Africa's economic policy agenda. Macroeconomic stability is a necessary condition for faster economic growth; it is, however, not a sufficient condition for higher growth. There, I said it, clichés out of the way.

The purpose here is to contribute to debate on the future path of South Africa's economic reform agenda.[1] What are the policy options for raising the level of growth, and how do we achieve a sustained rise in living standards of the poor? Let me put this more clearly: one of the main objectives of the government's economic policy must be to reduce the level of poverty on a sustainable basis. The contention spelled out below is that it is only possible to reduce poverty sustainably if employment rises, and employment will only rise significantly if the economy grows faster. While this may seem obvious, the government's economic policy is inherent in the statement.

To unpack the statement, the government's economic policy is premised on the fact that long-term poverty alleviation is only possible through a sustained rise in employment. Any other solution is second best. While social grants and better health care and housing are important elements of a solution, these programmes do not reduce poverty, and they do not solve long-term and deep-rooted poverty.

The second part of the statement says that employment can only rise if two things happen – the economy grows consistently and faster, and the microeconomic blockages to employment creation and broad-based empowerment are removed. We need higher rates of economic growth and we need stable growth or the absence of boom–bust cycles. We also need growth of a type that creates employment, raises skills levels and productivity and deconcentrates wealth and economic opportunities. Implicit in this policy approach is that the government cannot increase employment on its own and that the private sector will not increase employment unless profitability is rising and structural market failures are addressed.

If we accept this policy approach, and I accept that not everyone will, the question then becomes how we raise the level of economic growth and what type of interventions will allow for job-creating growth.

Because South Africa has been able to achieve a degree of macroeconomic stability, the policy room to implement a series of microeconomic reforms to make the economy more dynamic, responsive and labour-absorbing is much wider than ever before. The microeconomic challenges that face South Africa deal with structural inefficiencies in various markets. The most critical of these inefficiencies lie in the education and skills development nexus and in the labour market. Other areas of reform include competition and trade policy, spatial and public transport services, access to land and agricultural markets, crime and a series of inefficiencies in the public sector.

The developmental state

In various political and economic policy statements, the South African government has characterised itself as a developmental state. The idea of the developmental state is most closely associated with Chalmers Johnson and his seminal analysis of Japan's very rapid, highly successful post-war reconstruction and re-industrialisation (1982). Johnson's central contention was that Japan's quite remarkable and historically unparalleled industrial renaissance was neither a fluke nor inevitable, but a consequence of the efforts of a developmental state. A developmental state was one that was determined to influence the direction and pace of economic development by directly intervening in the development process, rather than relying on the uncoordinated influence of market forces to allocate resources. The developmental state took upon itself the task of establishing social and economic goals with which to guide the process of development and social mobilisation. The most important of these goals, in Japan's case, was the reconstruction of its industrial capacity, a process made easier by widespread consensus about the importance of industrial development.

The definition of a developmental state and the concept espoused by South African policy-makers is broader than Johnson's narrow definition. While Johnson emphasised the importance of the state in driving economic growth, the need for social development has also been brought into the equation. This different interpretation of the developmental state is in line with the evolution of the concept in the latter part of the twentieth century. Patrick Heller (2001), director of Browns University's Development Studies Programme, defines the developmental state as one that has been able to manage the delicate balance between economic growth and social development.

Amartya Sen, in his book *Development as Freedom*, says that 'development can be seen … as a process of expanding real freedoms that people enjoy' (1999: 3). He goes on to say that 'development requires the removal of major sources of unfreedom: poverty as well as tyranny, poor economic opportunities as well as social deprivation, neglect of public facilities as well as intolerance or over-activity of repressive states'.

In defining the South African concept of a developmental state, Sen's concept of removing poverty and tyranny is central, expanding economic opportunities and fighting social deprivation are critical, and providing public facilities and services to the poor is paramount. Fundamentally, the developmental state must balance the promotion of economic growth with social development. It must also balance investment in long-term growth such as human capital development with shorter-term investments in economic infrastructure.

In order to embark on creative and innovative methods of fighting poverty and social exclusion, one needs a stable macroeconomic environment. The government can only successfully sustain interventions in economic development such as those referred to by Johnson if the foundations of the macroeconomy are sound. Without this stable macro environment, there is little room for experimentation and unconventional policies that advance redistribution and inclusion.

The South African economy in 1994

In assessing the appropriateness of a particular economic policy approach, an analysis of the situation is required. In 1994, the South African economy was literally on its knees. The short-term issues it faced were the after-effects of a severe drought in 1992, a global economic recession, political strife and economic policy uncertainty at home, a large budget deficit, almost no foreign exchange reserves (less than a week of import cover), a private sector creaking under high interest rates, inflation of about 15 per cent and massive outflows of currency. According to the South African Reserve Bank (SARB), the longest downward phase in the country since 1945 lasted from March 1989 to May 1993 (see Table 6.1).

While these short-term issues suggested a crisis mode, the longer-term structural weaknesses in the economy, going back to the early 1980s, were even more serious. Investment and employment were in a long-term structural decline from the early 1980s. Large monopolies developed behind high tariff walls. Capital became concentrated in relatively few hands. The education system was churning out people totally inappropriately equipped for an industrialising country. A large portion of the industrial sector was built on the back of either military and armaments requirements for the Angolan/Namibian war or energy self-sufficiency. The mining sector was in decline due to diminishing gold reserves and delayed investment, the financial services sector was well developed but with very high cost structures, and manufacturing was being decimated.

These long-term structural weaknesses were less obvious than the short-term economic problems, but were far more serious and difficult to fix. To complicate matters, the new democratic government had very little credibility in the area of economic management. So serious was this problem that President Mandela appointed a Minister of Finance from the old ruling order. The perception of many international and domestic investors was that the ANC would adopt socialist economic policies that would result in rising tax rates, rising interest costs and increased state intervention in the economy. White capital was hugely sceptical of the new government, pledging support for democracy in public while disinvesting from the economy both legally and illegally.

Table 6.1 The unwinding of economic growth (annual average GDP growth)

Period	GDP growth (%)
1960s	5.7
1970s	3.3
1980s	1.5
1990 to 1993	–0.4
1994 to 2003	2.8

Source: SARB various

Before moving on from the structural weaknesses in the economy, it is worth mentioning that South Africa was also going through another dramatic structural transition. African fertility rates had begun to decline in the mid-1980s. This, according to Statistics South Africa's (StatsSA) narrative of the Census 2001 results, was mainly because of rapid urbanisation, a breakdown in subsistence agriculture and higher levels of education. The consequence was that while the population growth rate declined rapidly, the rate of growth of the working-age population was rising rapidly. Between 1996 and 2001, the population growth rate dropped to below 2 per cent a year (below the rate of economic growth) while the labour force (the population available for and seeking work) grew by over 5 per cent a year (much higher than the rate of economic growth).

While this decline in fertility rates may yield economic benefits in the future, it does mean that there is short-term pain resulting from a growing school population coupled with a working-age population that is rising much faster than the rate of economic growth.

The Reconstruction and Development Programme

In finding a solution to the seemingly intractable economic problems facing the new government, the ANC and its allies looked to the reconstruction of Europe after World War II and to the USA's economic turnaround after the Great Depression. In both Europe and the USA, the economic policy used to restart the economy was a demand-driven approach involving large infrastructure programmes, increased public investment, increased public-sector employment and higher social security spending. In Europe's case, these investments were facilitated by cheap international finance under both the Marshall Plan and the new International Bank for Reconstruction and Development. The ANC and its allies proposed a similar approach to that used by the two leading economies in the world.

The Reconstruction and Development Programme (RDP) proposed a massive increase in the delivery of social goods. It proposed the construction of a million houses; the provision of water and electricity; increased employment in education, health and policing; and rapid land reform. The RDP document also advocated prudent fiscal policy. The underlying assumption in the RDP was that the government would either borrow or divert spending away from defence and inefficient state enterprises to drive up domestic demand so that investment would follow and employment would rise. This had worked well in both Europe and the USA.

This economic strategy had to be tempered for four main reasons. First, South Africa had a very low savings rate and this gap could not readily be met through international flows, given the recent transition. Second, borrowing from abroad was seen as expensive and risky because of the poor appetite of foreign lenders for extending credit to the new government. Third, the capacity of the public service to roll out a massive investment programme was far short of expectations. Lastly, the trend in the South African economy was that when public spending increased and domestic demand rose, domestic suppliers were not able to respond to the increased demand. An increase in government spending would result in an increase in imports.

The theory of the RDP was that if the government were to build and electrify a house, it would create demand for televisions and kettles and the factories making these goods would employ more people. The reality was that while demand for kettles and stoves did rise, the kettles were more likely to be made in South Korea. Jobs would be created, but in Korea, not at home.

By 1996, the government had begun to realise that while the social objectives of the RDP were noble and correct, faster economic growth was needed to provide the resources to meet social investment needs. In addition, more certainty was needed on the major macroeconomic variables, such as inflation, interest rates and tax rates, which determine long-run investment decisions.

The Growth, Employment and Redistribution strategy

The problem that the Growth, Employment and Redistribution (GEAR) strategy attempted to solve was a history of boom–bust cycles in the economy and the low level of savings in the country. This was a macroeconomic policy package, but it also had many aspects of microeconomic reform. The three main assumptions behind the macroeconomic elements of the GEAR strategy were that:

- the current account deficit was a binding constraint on sustained economic growth;
- the low level of domestic savings was an obstacle to increasing the level of investment; and
- the government's deficit and tax policies contributed to the low level of savings.

To solve the latter two problems, the GEAR strategy sought to reduce the level of taxation on the economy, reduce the budget deficit and increase the share of public spending on infrastructure. On the first and third scores, the government did not succeed. The tax to GDP ratio went up by about 3 per cent of GDP during the period 1994–2001. Furthermore, the share of general government spending on infrastructure dropped from about 4 per cent of GDP to about 2 per cent. However, mainly due to a higher tax to

GDP ratio, the deficit was reduced significantly over the period. This reduced interest costs, with a lag though, providing additional resources for the government to spend. The government's negative contribution to national savings did reduce significantly. However, this was mainly due to a higher tax level and hence lower borrowings, rather than through higher capital spending (Table 6.2).

Table 6.2 Selected fiscal indicators, National Accounts data

	1994	1998	1999	2000	2001	2002	2003
Gross fixed capital formation (percentage real growth)							
General government		–4.4	–9.6	–6.2	–0.7	2.0	4.0
Public corporations		52.8	–29.1	–19.9	–4.0	8.1	15.3
Percentage of GDP							
Government consumption expenditure	20.0	19.0	18.7	18.7	18.9	18.7	19.0
General government savings	–5.9	–2.8	–1.9	–2.0	–0.6	–0.4	–0.9
General government tax revenue	24.4	26.9	27.1	26.3	27.3	26.8	26.9
Interest on public debt	5.5	6.4	6.2	5.8	5.4	4.9	4.7

Source: SARB various

The strategy to reduce the exposure of the country to high current account deficits was a more complex one centred on three pillars, namely the reduction of tariff barriers in order to increase the competitiveness of the domestic economy, the liberalisation of exchange controls in order to deepen capital markets, and efforts to increase and diversify exports. Attracting stable foreign direct investment flows was seen in the GEAR document as the best solution to the short-term need for capital. Limiting buoyant domestic consumption was also a key part of the strategy. Exports have risen strongly over the past eight years (Table 6.3). The mix of exports reflects structural shifts away from mineral exports towards manufactured exports. In 1991, 28 per cent of exports were manufactured products. By 2001, this had grown to 38 per cent. The strategy to reduce the constraint that the current account placed on the economy has been moderately successful, resulting in a situation where the country has been able to achieve higher levels of growth without running a significant current account deficit.

While not explicitly included in the GEAR document, the government also introduced an inflation-targeting regime in order to increase transparency in monetary policy, to reduce inflation expectations and to drive inflation down towards that of our major trading partners.

The positive achievement of the GEAR strategy was that macroeconomic stability, as conventionally defined, has been achieved. The economy has been able to grow consistently for ten years without major boom–bust cycles. The government has reduced its borrowings, its interest burden is declining, inflation is down and so are interest rates, and the current account deficit is moderate and easily financed. Furthermore, South

Africa's external debt is low, private-sector foreign exchange reserves are significant and the government's short-term debt is entirely manageable. Export diversification is proceeding steadily.

Macroeconomic stability means stable prices, stable interest rates, predictable economic costs such as tax policies and regulatory regimes and predictability about future tax and interest rates. Key indicators of macroeconomic stability are debt levels, foreign debt levels, maturity profiles, short- and long-term interest rates, the level of the deficit and other fiscal balances. These indicators apply not only to the national government's finances, but to the finances of the entire country, including sub-national spheres, state enterprises and, in some cases, the private sector too (Table 6.3). In East Asia in 1998, many countries suffered from financial crises due to high short-term foreign currency debt of the private sector, not of government.

Table 6.3 Selected economic data (annual average growth rates unless otherwise indicated)

	1970–1979	1980–1993	1994–2003
GDP growth	3.3	1.4	2.8
CPI inflation	9.9	14.2	7.2
Current account balance (% of GDP)	*–2.4*	*0.9*	*–0.8*
Financial account balance plus unrecorded transactions (% of GDP)	*1.7*	*–0.9*	*2.1*
Final household consumption	3.7	2.6	3.3
Percentage of GDP	*57.2*	*57.7*	*62.4*
Final government consumption	5.4	3.5	1.3
Percentage of GDP	*14.2*	*18.1*	*19.0*
Gross fixed capital formation	4.7	–0.6	4.7
Percentage of GDP	*26.4*	*21.2*	*15.6*
Gross domestic expenditure	3.6	1.7	3.1
Percentage of GDP	*98.6*	*95.2*	*97.9*
Exports	1.2	1.7	4.0
Percentage of GDP	*27.6*	*26.9*	*26.5*
Imports	1.5	2.6	5.8
Percentage of GDP	*26.1*	*22.1*	*24.5*
GDP inflation	11.5	15.5	8.0

Source: SARB various

While South Africa's performance in all of these indicators improved markedly during the period 1996–2000, the main objective of GEAR (and of economic policy in general) to increase employment did not materialise. There is no consensus on the reasons for this failure. Possible reasons range from the impact of the Asian crisis to failures in the education system, from Afro-pessimism to an investment strike by big business.

While macroeconomic stability had been achieved, the economy had grown and the institutions that manage the economy had built up a high degree of credibility, there were microeconomic blockages that prevented the economy from growing faster and creating jobs. Various analysts emphasised different microeconomic blockages; the main ones listed as policy challenges were:

- the functioning of the skills system, including workplace skills initiatives;
- the spatial development patterns that apartheid planning introduced, resulting in inefficient urban planning and high transportation costs;
- poor passenger and freight transportation systems;
- poorly regulated monopoly markets in key areas such as telecommunications and energy, and little competition in many private goods markets;
- labour markets that do not clear for both supply- and demand-side reasons;
- high levels of poverty, which prevents people from seeking employment or engaging in entrepreneurial activity;
- perceived inequities in the tax system that discourage new investment;
- low productivity in certain industries, especially those with high tariff barriers;
- low levels of efficiency in the public sector, including poorly run state enterprises and weak municipal government; and
- high levels of crime, which reduces the quality of life of the poor and vulnerable and deters investment.

This list of microeconomic market failures seems long, but these issues go to the heart of the problems facing an economy coming out of a long period of structural decline. The government has achieved a level of macroeconomic stability. With this level of stability, the government can now focus on fixing the numerous failings in various sectors of the economy. The objective of this microeconomic reform agenda would be no different from the economic objectives set out earlier; that is, poverty reduction through increased employment in an economy that is growing faster, but also absorbing more labour. The government can now use the stability in the economy as a platform to address both economic inefficiencies and social policy objectives.

Economic policy options for the next decade

Having attained macroeconomic stability, there are broadly three approaches open to the government to raise the level of growth. The first is to pursue a microeconomic reform strategy. The government adopted the microeconomic reform stance in 2001 and an integrated manufacturing strategy shortly thereafter. Policy-makers recognised that while the microeconomic reform agenda has strong theoretical underpinnings, its practical implementation is difficult, and it must be accepted that correcting market failures takes many years, sometimes decades.

The second and third options are what economists sometimes refer to as 'shock options' or 'demand shocks'. The first of these two shock options is called a 'consumption shock'. The proponents of this option argue that the government should raise the level of domestic consumption through higher social security grants and higher consumption expenditure. A consumption shock can also be achieved by lower tax rates and/or lower interest rates, though the benefits of this type of consumption shock accrue to a different set of people relative to a social grant increase. The theory behind this type of shock is that in a relatively short period of time, the government can raise demand and bring the poor into the money economy, and the private sector will respond through manufacturing more and employing more people in the process. Proponents of this argument also point out that economic activity in rural and poor areas will be given a boost through the higher levels of income.

The second type of shock is an 'investment shock'. This option entails a rapid and significant increase in investment spending, driven initially by the government and state-owned enterprises but followed soon after by the private sector. This option requires the investment to be of a nature that crowds in private-sector investment. There are two types of infrastructure investment that could achieve this. Investment in lowering the cost of doing business will increase rates of return and this may increase private-sector investment due to the higher rates of return. This category of investment may include telecommunications, transport, freight logistics and energy. A very large road-building programme (highways) is both achievable and can be rolled out quickly. The second type of infrastructure that could crowd in private investment is housing and municipal investment that increases employment and uses mainly domestic resources. A significant increase in housing, waterworks, township roads and other community facilities can achieve this.

The investment shock option is only possible today due to the stable fiscal position, greater openness of the economy and greater resilience to cope with higher current account deficits. If such an investment were to have been carried out in 1994, it would have resulted in a boom–bust scenario.

While the three options available for raising the level of growth and employment do not seem mutually exclusive, it is practically impossible for the government to have the resources to support a consumption and an investment shock. At this point, it must be accepted that the two shock options are mutually exclusive. The microeconomic reform agenda, however, is not exclusive of either of the two shock options. In most cases, a sound microeconomic reform agenda does not require significant financial resources. It often requires strong leadership, sound policy and intelligent capacity to implement the policy sensibly. While economists may argue about exactly which microeconomic reforms are more important, there are few who will disagree that all countries, at all stages of development, face the challenge of managing market failures, improving the performance of the public sector and removing blockages from various value chains. After selecting which microeconomic reforms are most critical, it is important to decide on whether this strategy is the only strategy or whether also pursuing one of the shock options is necessary. This chapter will evaluate the two shock options and then conclude with a discussion about which microeconomic reforms are most critical.

What type of shock is likely to provide the desired result?

Consumption shock

As pointed out earlier, a consumption shock could be achieved by lower tax rates, lower interest rates, higher social grants, higher public-sector employment or a large increase in government spending on goods and services. The first two methods would see mainly richer people taking advantage of easier credit conditions or more disposable income to increase consumption spending, as is presently being done in the USA to feed a consumption boom, in the hope that investment will rise and employment will follow.

The hope is that while imports may rise at first, the local manufacturing sector would soon respond by raising investment to meet the higher domestic demand. In the USA example, the public sector takes on the financing risk but the benefits accrue mainly to the richer people. Given the nature of goods that the wealthy consume in South Africa, it is debatable whether domestic manufacturing would be able to substitute for this class of imports. If local production did not materialise, the country would have a growing current account deficit and rising inflation, forcing interest rates (or tax rates) to rise, bringing an end to the consumption shock. In the South African context, this type of a consumption shock is not likely to result in a sustained increase in investment and employment.

The second method of achieving a consumption shock is to increase social grant expenditure or raise government consumption spending, including an increase in public employment. For this to happen, the government would have to borrow from capital markets and divert resources towards the poor. The expectation is that demand from the poor for goods and services would result in an increase in investment in predominantly poor areas to meet the demand. It is assumed that the positive benefit from increased investment and employment in poor areas would offset the decrease in investment due to higher interest rates. However, if production did not increase, inflation would soon erode the higher level of spending in poorer areas. If interest rates rose to counter both higher government borrowing and inflation, there would be a net decrease in investment. Some people argue that while there might be a decline in investment, the poor demand goods such as food and clothing that are labour intensive in their production, so employment may rise anyway. This scenario is unlikely, as food markets in South Africa are highly commercialised operations, the costs of which are often determined by capital inputs, fuel and fertilisers. These commercialised operations employ relatively few people. Other goods consumed by the poor, such as clothing and kitchen appliances, are often imported from markets with lower production and labour costs like East Asia.

While this type of consumption shock seems appealing from a political perspective, as the poor receive more money, the real effect on investment (even in poorer areas) and job creation is likely to be negative. If investment and growth slowed as a result of this policy approach, the medium-term effects on the welfare and living standards of the poor may be negative.

Investment shock

South Africa's investment rate fell from about 25 per cent of GDP in the early 1980s to about 16 per cent of GDP in 2004. To sustain a higher growth rate, it is important to raise the level of investment back towards 25 per cent of GDP. A consumption shock is not likely to provide the impetus for a sustained rise in investment. Economic policy has to shift to force a higher level of investment. In the long term, a rise in investment can only be sustained by rising rates of return on investment, which are only likely to be achieved through microeconomic reforms aimed at lower production costs and reducing obstacles to investment and through higher demand for goods and services. While strong domestic demand is important, access to international markets and rising global demand provide a much larger source of demand for South African goods. Domestic consumption on its own is unlikely to achieve a sustained rise in demand to provide the economies of scale necessary for higher investment. While microeconomic reforms are likely to provide the impetus for a slow rise in investment, the government can introduce policies that raise investment levels relatively quickly. Such policies would include higher levels of government investment in economic infrastructure, sound fiscal and monetary policy that ensures a competitive currency and lower real interest rates, and tax policies that incentivise investment as opposed to consumption.

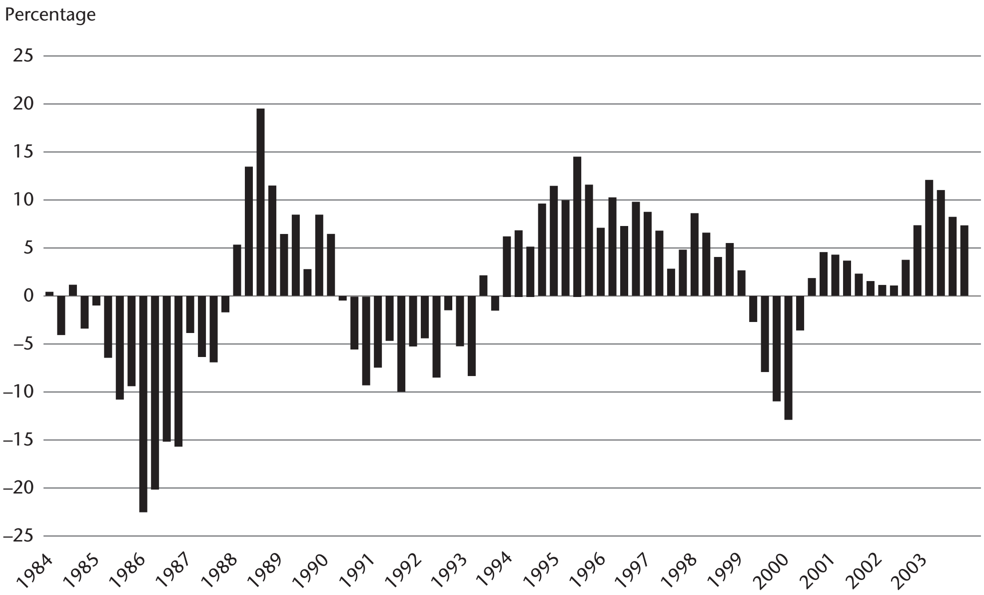
Through a programme of higher borrowing by the government for economic infrastructure and through tax reform, the government could engineer a higher level of investment. However, higher taxes may limit domestic consumption and limit the profitability of enterprises. Any shift in the tax structure would need to be gradual and moderate. Higher borrowing also needs to be done carefully so that domestic interest rates do not rise or the currency does not appreciate.

If higher foreign borrowing goes into investment, there is not likely to be an appreciation of the currency, as the imported content of investments will offset the impact of importing capital. Inherent in this policy approach is an assertion that South Africa can now sustain a higher current account deficit, whereas this was not possible a decade ago. The contention here is that such a strategy to raise investment is only possible because of the macroeconomic environment that exists today.

Higher investment by the government should be concentrated in two areas: economic infrastructure that will crowd in private-sector investment and municipal infrastructure that has a higher domestic content and is labour intensive. Investment in transport infrastructure, water storage, energy and regulatory changes to unlock investment in telecommunications could lower the cost of doing business in South Africa and lay the basis for a sustained rise in private-sector investment.

Municipal infrastructure such as housing, township roads, water and sanitation systems, community centres and government services (policing, schooling and health care) could have economic and social benefits for the country. While the government has spent billions on these services, it is possible to significantly raise the level of investment in poor communities. If the government wants to raise the level of investment in the economy from 16 per cent to 25 per cent by 2014, real growth in gross fixed capital formation of about 10 per cent a year must be sustained. This will not be easy to achieve when one looks at the trend in this indicator for the past two decades (see Figure 6.1).

Figure 6.1 Percentage growth in gross fixed capital formation



Source: SARB various

While most economists and political commentators would not argue against a rise in public infrastructure spending, there are trade-offs that must be faced. The government would need to limit spending growth on recurrent items such as personnel costs and social grants. This is politically difficult. The government would also need to be certain that an increase in investment occurs in a manner that raises private-sector investment and generates a rate of return sufficient to repay the higher debt accumulated. Furthermore, investment must be targeted towards sectors that raise overall productivity, rather than only focusing on capital-intensive investment. Rising investment and lower real interest rates could result in lower levels of employment if the capital–labour ratio changes towards capital. For this reason, a rise in capital spending must be accompanied by microeconomic reforms that allow for a rise in employment.

In raising the level of investment, the government must be mindful of the risk of investing in large politically appealing projects that do not raise productive capacity in the long term and do not shift the economy towards more labour-intensive sectors. Investments in large energy-sapping smelters are a case in point.

The rationale of the investment shock option is that microeconomic reforms and investment in human capital are only likely to improve economic performance slowly and in the longer term. In the shorter term, capital investment is more likely to raise growth and income levels sustainably than a consumption shock. A consumption shock may boost growth by a greater margin in the very short term, but this growth is not likely to be sustained.

Which microeconomic reforms should be prioritised?

The list of microeconomic problems that requires attention is a long one (see earlier). The proposed investments in municipal services infrastructure and economic infrastructure are elements of a microeconomic reform strategy. For the purposes of this chapter, I wish to argue that two further microeconomic reforms should be prioritised; these are the education and training system and labour–market reforms.

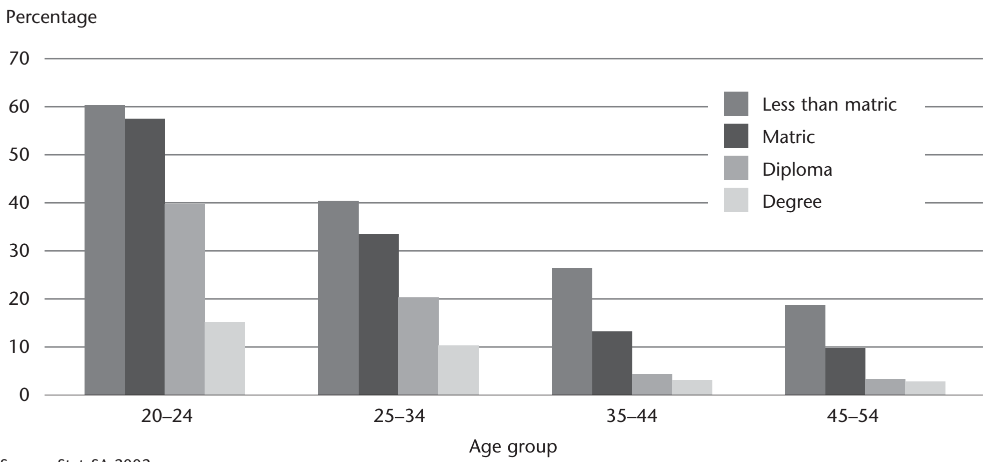
Education and training

It is obvious that one of the worst consequences of apartheid on society has been the devastating effect of the apartheid education system on African people. While much has been achieved to stabilise the system over the past decade, to remove racial disparities, and improve access and resourcing to 'black schools', it is also clear that we have not begun to produce large numbers of young school-leavers who are equipped to handle today's dynamic and skills-intensive economy. Without underestimating the achievements of the education system during the first decade of democracy, results show that few black matriculants are proficient in mathematics and science, on the one hand, or in technical competencies, on the other. The result of this parlous situation is that the skills that business needs are not available. This pushes up the costs of skilled labour, forces investment in labour-substituting machinery and limits the prospects for the South African economy. While importing skilled labour should be made easier, it is a short-term solution.

Although the quality of schooling in black areas has stabilised, improvements have only been visible in a few areas, islands of success rather than broad-based improvements. While the pay of teachers in black schools has risen significantly, poor teacher training, weak school management, over-centralised disciplinary procedures and insufficient investment in learning materials have resulted in too few black school-leavers possessing the skills to enter tertiary education in areas such as engineering, commerce, finance and science. Weak school management combined with insufficient parental power to improve school management are amongst the most critical areas that need attention.

Partly due to policy failure and partly because of insufficient funds, technical education has suffered. In Germany and the UK, over a third of young people are involved in some kind of vocational education. In South Africa, the figure is closer to 4 per cent. A remark by the Minister of Labour on the absence of linkages between the education system and the skills development strategy and the programmes of the Sector Education and Training Authorities reinforces the point. Education authorities have not changed the curricula in the schooling area (or technical educational arena) to meet the needs of industry. There are two effects of this policy failure: public further education and training (FET) organisations cannot attract private funding and the graduates of these FET colleges are unable to get employment easily.

Figure 6.2 Unemployment rates by age and qualification



Source: StatsSA 2002

Why do I say that this area of social policy requires a microeconomic solution? There are two market failures in the education system. The first is that the poor, on their own, with their limited financial resources, are unlikely to consume the quantum of education that society needs. One solution to this problem is to provide publicly funded education opportunities for the poor. In South Africa, we have achieved this, but the quality of education has been poor. Many people propose various administrative and bureaucratic reforms to improve the quality of schooling. An alternative approach is to provide a more pro-poor funding arrangement but to allow the private sector to deliver education to poor learners. This is a politically controversial solution in the near term. A middle-road approach of publicly provided education with greater parental oversight over school governance should be considered. While we have an elaborate system of school governing bodies, the power of these bodies and the capacity to improve school management and resource allocation is constrained.

The second market failure is that the quality of schooling does not meet the requirements of society. Here, the state plays or should play an important standard-setting role. Because education is mainly publicly provided, it is necessary for the state to play a quality-control function. Information asymmetries in the perceived and real quality of school education mean that the private sector does not trust the schooling system (or matric certificate) to provide an indication of quality. Similarly, the schooling system is not able to get across its skills needs to the training providers. Addressing these information asymmetries is essential if the outputs from the schooling (or training) system are to be relevant to the economy and to society in the long term.

Labour-market reforms

In analysing the historical reasons for South Africa's unusually high unemployment rate, three main factors stand out – the decimation of the African peasantry between the 1860s and 1960s, an extremely poor skills set as referred to earlier and a rapid expansion in the labour force due to demographic and migratory factors. Poor economic growth and low levels of investment lead to cyclical fluctuations in employment, but the three reasons outlined above partly explain the structural reasons for the high unemployment.

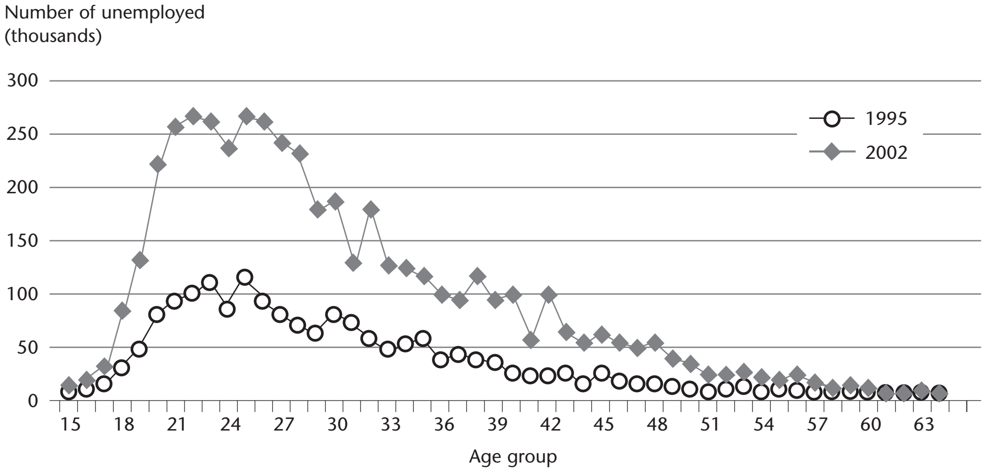
While it is clear that a more skilled labour force would lead to higher growth and employment, it is not realistic to increase the skills profile of the country in a short period of time. Investment in human capital often takes generations to yield results. Shorter-term training options, such as vocational training or workplace skills training, are costly due to the poor skills base and are always likely to be limited in their impact.

Other labour supply-side programmes, such as job placement services, programmes to reduce information asymmetries and the training options listed earlier, are likely to play a role in reducing unemployment and raising living standards. However, none of these supply-side measures on its own is likely to make a meaningful impact on the unemployment rate. None of these measures is likely to lead to a halving of the unemployment rate over the next decade, which is the express intention of the government. Labour-market reforms that increase the demand for labour are also necessary.

In the mid-1990s, as South Africa was drafting its labour laws, the overriding objective was to increase stability in the labour market. The history of industrial relations in the late 1970s and 1980s was characterised by massive strikes, both politically motivated and arising from shop-floor issues. Excluding those of a political nature, strikes arose over remuneration and employee benefit issues, union recognition, procedures used to dismiss employees and retrenchments. The 1996 Labour Relations Act and the Basic Conditions of Employment Act were designed to reduce instability in industrial relations through putting in place procedures for collective bargaining, regulating employee benefits including minimum wages and, most importantly, introducing a set of dispute resolution mechanisms based on a Northern European model of dispute resolution. In addition, the Employment Equity Act attempted to deracialise the workplace. The effect of this legislative framework has been a remarkable degree of stability in the labour force and a dramatic reduction in work days lost to strikes.

While many large corporations supported the legislative framework, many sectors in business argued that the labour laws benefited organised labour and big business as opposed to small- and medium-sized businesses, because only companies that employed large numbers of people could afford the regulatory cost imposed by the legislative framework. Supporters of the labour legislation argued that it was not true that the regulatory framework placed an onerous burden on small businesses, and that this was merely the perception of uninformed business managers who had not adapted to life without support from the apartheid regime.

Figure 6.3 Unemployment rates by age, 1995 and 2002



Source: StatsSA 1995,2002

Perception or reality, the regulatory environment has inhibited job creation. Investment has been mainly in labour-substituting models of production and there has been very little employment of young people. As can be seen in Figure 6.3, youth unemployment has risen dramatically since 1995. Companies appear not to be hiring young people with little experience. A possible explanation for this is that it is too difficult to dismiss people for non-performance. For this reason, companies become very risk averse and only hire young people with a high level of skills or older people with a proven track record in the workplace.

The package of labour laws is designed for an environment where everyone is able to gain employment in high value-added sectors with world-class remuneration levels and employee benefits. The reality is that when a large proportion of the population is poorly skilled, then by placing a floor on wages, and by increasing the non-wage costs of employment through various taxes and levies, businesses do not invest to increase employment. Investment in labour-intensive production is very low.

In sectors where collective agreements were negotiated between large businesses and unions, these have often been extended to non-parties, thereby imposing these agreements on smaller businesses. The effect of this is to further reinforce the dominance of big business and to prevent the expansion of small businesses.

The effect of minimum wages on labour-intensive sectors has been mixed. While employment in domestic work has not declined, employment in agriculture appears to have fallen, though minimum wages are but one part of the reason for this decline.

The regulatory framework is also designed to limit casual work. Consequently, young people cannot get even part-time work in order to build up a body of experience. Most young people are caught in a cycle where they cannot get their foot in the door of the labour market, as employers seek people with experience. While the learnership and internship programmes are aimed at reducing this problem, they do not provide a large-scale solution for young people. Even if all the targets set for these programmes are met, they will not reduce the unemployment rate significantly.

In order to raise the level of employment, both supply- and demand-side policies are required. While it will be politically difficult to make major changes to the legislative framework, four areas do require attention: the cost of dismissing people for non-performance, the effect of extending collective agreements to non-parties (small- and medium-sized businesses), the rate at which minimum wages are increased and the impact of the legislative framework on youth employment.

While the first two issues are self-explanatory, the government needs to broaden the definition and the exemption of small businesses from aspects of the regulatory framework. As a country, we have accepted the principle of minimum wages, but it is important that employers be given long-term certainty. It is important that minimum wages should not rise much faster than the overall rate of inflation, after taking account of productivity gains. Lastly, the principle of the leanership programme can be expanded to make it easier for companies to hire young people or allow for some amount of casual employment for younger people.

These changes to the labour-relations regime will not alter the overall stance of the regulations, which will still contribute towards sound dispute resolution and a stable industrial-relations environment. While there will be criticisms of the types of changes proposed, raising the level of employment, especially amongst youth, is an objective that justifies ruffling the feathers of the present 'insiders' in the labour market.

Conclusion

The role of the developmental state is to make the appropriate interventions in economic policy that will allow for the promotion of economic growth and social development. Balancing these two objectives is critical to the achievement of the long-term objectives of reducing poverty, unemployment and social deprivation. While a sound macroeconomic policy provides a firm foundation for these interventions to be introduced, the government still needs to balance the promotion of economic growth and social development. The promotion of economic growth takes place through both short-term measures such as higher infrastructure spending and longer-term measures such as better education and regulatory reform.

Most countries that have made meaningful reductions in poverty have done so with means that are seen to be less than conventional. Japan's use of high tariff barriers, China's manipulation of ownership structures and its monetary policy, Malaysia's use of state enterprises and exchange controls and South Korea's use of trade policy and state enterprises are all examples of policies that are not advocated by the textbooks. Even in Europe and the USA, policies on trade and agriculture, and exchange rates and foreign policy are not the ones espoused in the economics literature. Yet, all these countries have been able to grow and raise living standards.

Many interpret this phenomenon as an opportunity to advocate policies that are considered unconventional. The lesson drawn from this experience is that it is only possible to make unconventional interventions in the economy if the macroeconomic platform is stable and robust. Only then can the state advocate policies aimed at redistribution, black economic empowerment or changing regional development patterns. Japan, China, Korea, the USA and Europe all introduced unconventional economic interventions on the back of a very stable macroeconomy. These economic interventions were made possible by the stable platform.

In the sequencing of economic reforms, achieving macroeconomic stability has to be an early objective. Once this is achieved, it is possible to accelerate microeconomic reforms to promote the functioning of markets, raise employment, increase redistribution and improve the performance of the public sector. The method to achieve these objectives needs to be adapted to local circumstances. With a sound macroeconomy, the government can use various methods to achieve the objectives listed earlier, but these microeconomic policies have a greater chance of success alongside sound macroeconomic policy.

Note

1 The views expressed in this chapter are my own. They do not purport to be those of the National Treasury or the Ministry of Finance.

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7 Sequencing micro and macro reforms: reflections on the South African experience

Michael Carter

Introduction

In earlier work, Julian May, Vishnu Padayachee and I argued that South Africa's inability to generate pro-poor economic growth warranted a reopening of the economic policy debate (Carter, May & Padayachee 2002). While the South African economic framework since the mid-1990s has been focused on fiscal and other macroeconomic targets, we argued that it was time to pay systematic attention to the microeconomic constraints that limit the ability of less well-off households to constructively engage with the South African economy. The recent calls by South African policy-makers to tend to microeconomics similarly reflect a disappointment with the anaemic growth and poverty alleviation performance of the South African economy.[1]

The South African record and ensuing debate about the wisdom of stepping beyond the macroeconomic confines of the Washington Consensus is a microcosm of a more global debate. Recent discussions, both popular and academic, are filled with often vitriolic discourse about the income distribution implications of globalisation and liberal economic policies.[2] Ravallion (2001) offers a particularly trenchant perspective on this debate. Ravallion notes that while, on average, growth has brought reductions in poverty, a look beyond the averages reveals a great deal of heterogeneity, with growth sometimes bringing strong reductions in poverty, and other times hardly any reduction at all.

Ravallion argues that this heterogeneity indicates that the relationship between growth and poverty reduction (the extent to which growth is pro-poor) is strongly conditioned by the microeconomic foundations of the economy. If this suggestion is correct, then getting the micro-foundations of the economy 'right' before, or at least in sequence with, macroeconomic reform may be necessary if the desiderata of pro-poor growth is to be achieved.

While macroeconomic reforms are well understood, the concept of microeconomic reforms is less well developed and understood. Microeconomic reforms are here understood as policies that create a more inclusive economy, one in which time and markets work as an arena for economic betterment for all citizens. As I will discuss later, the inclusive economy requires a minimum asset base for all citizens and access of low-wealth people to markets from which they are traditionally excluded, especially the markets for credit and insurance.

Against this backdrop, the goal of this chapter is to use recent South African experience to better understand the sequencing of micro and macro reforms. The chapter will speak to three questions:

- Is sequencing of macro and micro reform policies necessary to achieve pro-poor growth? (To which the answer will be: Yes, at least in inegalitarian economies.)
- Does poor policy sequencing create persistent costs that make it difficult to later correct its effects? (To which the answer will be: Yes, in all probability.)
- What are South African options for moving forward with inclusive micro reforms? (To which the answer will be: It is time to move beyond income support grants, even in the form of the BIG, Basic Income Grant, to consider a BAG, Basic Asset Grant, and systematic levelling of access to financial markets.)

The remainder of this chapter is organised as follows. First, we discuss the microeconomic conditions under which the conventional macroeconomic policies associated with the so-called Washington Consensus can be coherently argued to lead to pro-poor growth without any particular attention to microeconomic reforms. Then we examine asset and livelihood dynamics in South Africa over the 1993–1998 period. In contrast to a convergent, pro-poor pattern, econometric estimates reveal the existence of a low-level poverty trap toward which many poor and near-poor South African households are being pulled. These estimates, together with new data on constraints to self- and informal employment, suggest that it is indeed the exclusionary micro-foundations of the South African economy that underlie this poor poverty-alleviation performance. The next section asks what we know about sequencing micro with macro reforms in order to enhance the poverty-alleviating effects of growth. While there is still much to learn on this account, the section does argue that attention to micro reforms becomes more vital, and the costs of mal-sequenced reforms, in the form of irreversible asset losses, become higher. Finally, we look forward and consider the range of microeconomic policies and priorities that would seem appropriate for South Africa.

Pro-poor growth and poverty alleviation under the Washington Consensus

John Williamson (2003), who coined the term ‘Washington Consensus’ in 1990, has recently suggested that we jettison the term, given that it has come to take on multiple, ideologically charged meanings.[3] While Williamson’s recent suggestion surely has merit, the Washington Consensus continues to be useful shorthand for the set of policies that Williamson argued (as an empirical proposition) constituted shared economic wisdom in the early 1990s. A quick review of those policies reveals them to constitute the core of a macroeconomic reform agenda, with scant attention to matching or sequenced microeconomic reforms. That said, the Washington Consensus does implicitly contain an intellectually coherent structural approach to poverty alleviation, based on both enhancing the returns that poor households receive on their assets and facilitating their accumulation of productive assets. More specifically, the macro reforms of the Washington Consensus can be hypothesised to combat poverty by:

- 'Getting prices right' through trade liberalisation, which according to conventional trade theory should be expected to raise returns to unskilled labour, the most abundant factor in poor countries and the most abundant endowment of poor households within those countries.[4]
- 'Getting institutions right' by assigning secure, private property rights to land and other productive assets, a move hypothesised to bolster investment and accumulation, especially by poor households that most often experience insecure ownership rights.[5]
- Deregulation and elimination of financial-market interventions in order to open the way to private-sector providers able to meet the capital and risk management needs of poor households, further spurring savings and accumulation by poor households.

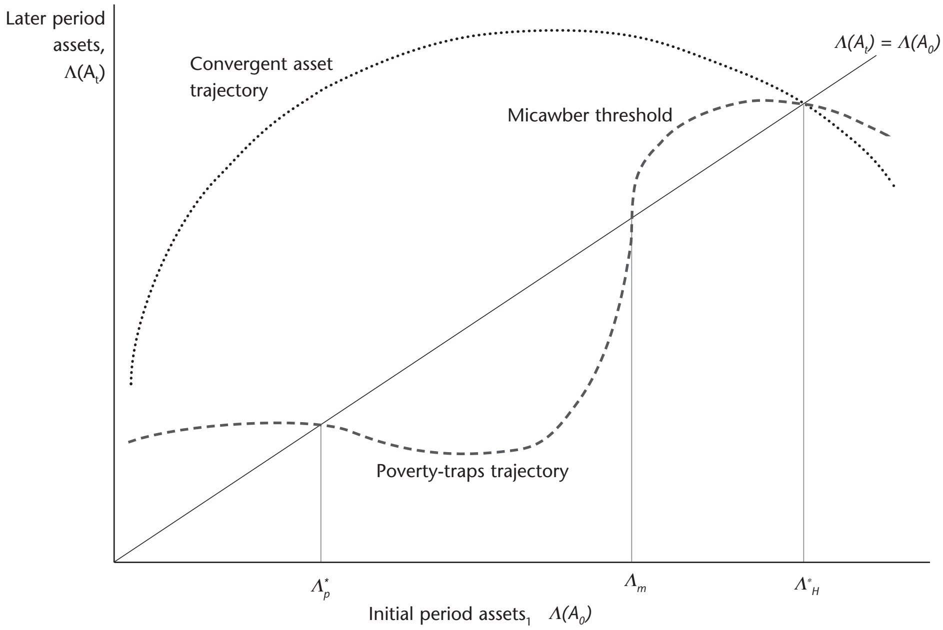
Thus, while Washington Consensus policies contain an intellectually coherent theory of pro-poor growth, the accuracy of this theory will depend on the economy's underlying micro-foundations. If the economist's fictive world of full and complete markets is more or less correct, and financial markets respond to the demands of low-wealth households, then the Washington Consensus theory of poverty alleviation should work effectively.

However, the Washington Consensus can fail as a pro-poor growth strategy if its microeconomic assumptions are wrong. In particular, if underlying markets systematically exclude low-wealth households, then the hypothesised asset accumulation of poor households is unlikely to occur. This countervailing perspective is reflected in the emerging economic theory of poverty traps. As detailed by Carter and Barrett (2005) in their recent review paper, the theory of poverty traps suggests that inadequate access to capital and insurance will continue to render infeasible the hypothesised asset accumulation by poor households even in the wake of successful macroeconomic reforms. If correct, this perspective implies a critical minimum asset threshold below which accumulation is not possible.[6] Instead of a pro-poor growth process in which the less well-off catch up or converge with their better-off neighbours, the theory of poverty traps implies a pattern of divergence in which those above the minimum threshold improve their economic situation, and those below stagnate or decline. From the perspective of poverty-trap theory, inclusive microeconomic reforms that enhance credit and insurance access are necessary if growth is to be pro-poor.

In principle, testing between the Washington Consensus and poverty-trap theories should be relatively straightforward. The former hypothesises that the poor should experience increases in the number of, and returns on, the assets that they hold (including unskilled labour power). The latter hypothesises that they will not.

To empirically distinguish between these two hypotheses, it would be useful to devise an asset index that permits us to explore accumulation of assets by poor families and the evolution of the returns they receive on their assets. Specifically, we need to devise an index that compresses the multiple economic assets of a household at time *t*, given by the vector *At*, into a one-dimensional index $\Lambda(At)$. We would like the asset index $\Lambda(.)$ to weight together assets in proportion to their economic returns so that the index itself maps assets into a household's expected livelihood. Examination of the evolution of this asset index over time should permit us to evaluate the degree to which growth has been pro-poor.

Figure 7.1 Hypothetical asset dynamics



In the next section, I will discuss the creation of an appropriate multi-asset index. For now, let us consider how we could use such an index to explore patterns of pro-poor growth. Figure 7.1 illustrates several possibilities. The horizontal axis measures initial or early period stocks of the assets used to generate incomes and livelihoods, $\Lambda(A_0)$. The vertical axis measures asset stocks for a later period, $\Lambda(A_t)$. The different curves express $\Lambda(A_t)$ as a function of $\Lambda(A_0)$. Note that the 45-degree line gives equilibrium points where $\Lambda(A_t) = \Lambda(A_0)$.

The convergent trajectory in Figure 7.1 illustrates the case in which poorer households tend to build up assets and livelihood potential over time, converging to the high-level equilibrium, Λ^*_H.[7] Such a convergent process would be consistent with the Washington Consensus' implicit theory of pro-poor growth.

In contrast, the poverty-traps asset trajectory illustrates the case of a divergent process. Asset level Λ_m is the critical minimum threshold (or the Micawber threshold) below which upward mobility is not possible. Households that begin below this level tend to fall behind, as $\Lambda(A_t) < \Lambda(A_0)$, and approach the low-level poverty trap equilibrium, Λ^*_p. Households above the critical Micawber threshold will tend to get ahead and approach the high asset and income equilibrium, Λ^*_h.[8] As discussed by Carter and Barrett (2005), the bifurcated trajectory will tend to occur when capital and insurance arrangements exclude poorer households, making it difficult for them to earn high returns on their existing assets and blocking future accumulation of additional assets. In this case, pro-poor growth will require that micro reforms be properly integrated and sequenced with macro reforms.

In summary, while both the Washington Consensus and poverty-traps theories offer coherent perspectives, the question about poverty dynamics is ultimately an empirical one. The next section will explore recent empirical research on poverty dynamics in South Africa.

The Washington Consensus: structural poverty dynamics, 1993–1998

To better understand micro and macro sequencing issues, this section reports on and interprets the results of a recent effort to estimate the structural patterns of livelihood and poverty dynamics in South Africa (Adato, Carter & May 2004). As discussed in the previous section, the finding of divergent or bifurcated dynamics would signal the presence of problematic micro-foundations. On the other hand, convergent dynamics would signal the success of the poverty alleviation logic of the macro, Washington Consensus policies embodied in the Growth, Employment and Redistribution (GEAR) strategy.

Livelihood-weighted asset index

Prior to estimating the livelihood dynamics and the relationship between $\Lambda(A_t)$ and $\Lambda(A_0)$, assets themselves must of course be measured and aggregated. As a basis for the weights needed to form the livelihood index, consider the following livelihood regression function:

$$l_i = \sum_j \beta_j(A_i)A_{ij} + \varepsilon_i \qquad (1)$$

where l_i is household livelihood or material well-being (measured as household consumption expenditures divided by the money value of the household's subsistence needs), and the coefficients $\beta_j(A_i)$ give the marginal contribution to livelihood of the j different assets.[9] Note that the fitted value of this regression function

$$\Lambda_i = \sum_j \hat{\beta}_j(A_i)A_{ij} \qquad (2)$$

yields the desired asset index, where assets are weighted by their marginal contribution to livelihood as given by the estimated regression coefficients, $\hat{\beta}_j$.

The advantages of the livelihood-weighted asset index Λ_i are several. First, its weights can be estimated quite flexibly, such that returns to assets depend on levels of other assets. In addition, the coefficients can be permitted to vary over different years as macro policy and other changes influence the returns on assets and endowments. Second, the index is expressed in a convenient livelihood metric. In the particular application used here, the asset index is expressed in poverty-line units (PLUs), such that a value of 1.0 means that the particular bundle predicts a poverty level of material well-being, a value of 0.5 would mean that the assets predict a livelihood at half the poverty line, and so on.

Estimated South African livelihood dynamics

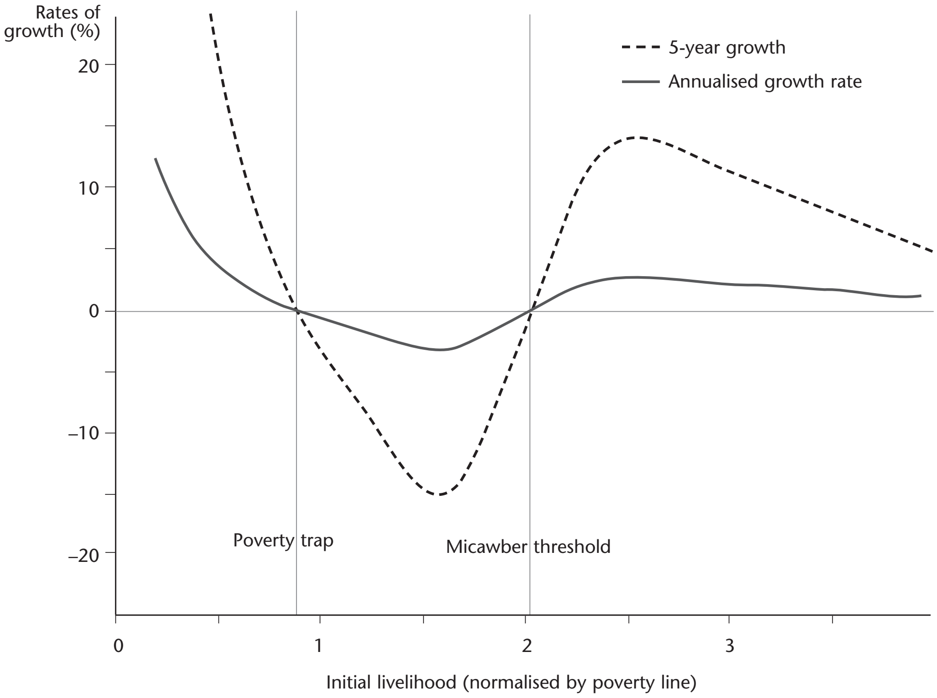
Adato et al. (2004) estimate the livelihood index for the 1 036 households represented in the KwaZulu-Natal Income Dynamics Study (KIDS).[10] They then use those estimates to explore the livelihood dynamics and degree to which the South African economy operated in the pro-poor fashion hypothesised by the Washington Consensus.[11]

Their primary estimates reveal that the South African income distribution is following the poverty-traps trajectory illustrated in Figure 7.1. The dynamics implied by this figure are precisely those of the hypothetical case of bifurcated dynamics. The Micawber threshold is estimated to be at an asset level that predicts a level of well-being that is about twice the poverty line. Households with assets below that level would be expected to experience deterioration in their position, heading back toward the low-level poverty-trap equilibrium at a level well-being of about 90 per cent of the poverty line. Households with asset indices above the Micawber threshold would be expected to move toward an upper equilibrium asset level that predicts a living standard of about 5.0 PLUs. Households that begin in abject poverty with asset indices less than 90 per cent of the poverty line would be expected to improve their situations, moving toward the poverty-trap equilibrium.

Figure 7.2 uses the econometric results from Adato et al. (2004) to extract information about the speed of asset accumulation and de-accumulation. The figure displays both the gross five-year rate of growth in the asset index, as well as an annualised rate of growth. A household that began just above the Micawber threshold (with an asset index of, say, 2.5 PLUs) would have a predicted annual growth in assets of about 2.5 per cent (or over five years would experience a 15 per cent increase in expected well-being) – meaning that its level of well-being would be expected to rise from 2.5 to almost 2.9 PLUs. A household that began below the Micawber threshold (at an asset level of, say, 1.5 PLUs) would be expected to fall backwards and have assets that predict a living standard of only 1.25 times the poverty line after five years.

Figure 7.2 is as striking for what it does not show as for what it does. Given the low standard of living and the high levels of unemployment suffered by households in our sample, it is surprising that these figures do not exhibit significant asset accumulation by less well-off households. Such households would appear to have every incentive to accumulate any surplus resources that could be profitably brought into use. Their failure to do so would

Figure 7.2 Estimated livelihood growth



seem to bespeak the lack of access to capital and risk management services as discussed earlier. While there may of course be other constraints at work, this pattern is consistent with an unequal and polarised society in which neither market nor social mechanisms broker opportunities for upward mobility for the least well-off households.

In addition to these structural patterns, the estimated asset dynamics also imply that temporary shocks or setbacks can have permanent effects. For example, imagine a household that initially enjoyed an asset index above the Micawber threshold. If this household experienced an asset shock that pushed its assets below the Micawber threshold, then the estimated pattern of bifurcated asset dynamics predicts that this household will experience long-term effects as its expected long-term asset position drops from 4.0 PLUs to the lower equilibrium of 0.9 PLUs. This observation of the potentially permanent effects of once-off shocks is of much more than academic interest. Fully 60 per cent of the KIDS households that exhibited downward mobility between 1993 and 1998 experienced shocks that reduced their assets (see Carter & May 2001). In addition, households that experience income (not asset) losses may still find themselves in a position where they are forced to liquidate assets to meet immediate consumption needs. If drawing down such assets pushes the household below the Micawber threshold, then the estimated poverty-trap asset dynamics again predict that the temporary shock will have permanent, long-run effects.

Micro-foundations of poverty-trap asset dynamics

While striking in its display that the South African economy did not work well for those below the estimated Micawber threshold, the econometric results in the prior section cry out for further explanation. This section reflects on one part of that explanation, relating it to the failure to match macro reforms with the micro reforms that were needed to make it possible for less well-off households to grab a hold of new opportunities.

How then do we understand the collapse of livelihoods just above the poverty line? Seidman-Makgetla (2004: 269, Table 7) calculates that formal sector employment fell by 125 000 jobs per annum from 1996 to 1999, roughly the period covered by the dynamic poverty analysis reported earlier. In marked contrast to other countries, this collapse in formal employment has not been matched by an expansion of informal and self-employment. Kingdon and Knight (2004) note that whereas informal and self-employment is 57 per cent of total employment in Latin America, 63 per cent in Asia and 75 per cent elsewhere in sub-Saharan Africa, it is only 19 per cent in South Africa. Reflecting the debility of the informal sector, measured open unemployment in South Africa is a whopping 30–40 per cent (in contrast to 5–16 per cent in the other regions).

While it is possible that unemployment has been mis-measured in South Africa, and that some fraction of the unemployed are either voluntarily unemployed or involved in unreported activities, Kingdon and Knight, among others, argue that this is not the problem. If they are correct, then a big part of the puzzle would seem to be why the response of informal and self-employment has been so weak in the face of collapsing formal employment.

In an effort to gain some insight on this question, the recently completed third round of the KIDS survey asked households that had successfully entered self-employment to list the constraints that had made it difficult for them to achieve this status. More than 50 per cent of the respondents indicated that access to capital had been a major barrier to their ability to open their own business. Lack of profitable business opportunities was listed by a similar number of respondents as constituting the other major barrier to self-employment.

While further analysis of these data is called for, on the face of it they point squarely to inherited market structures that were not well equipped to deal with the demands (and supplies) of small-scale enterprise. Against this backdrop, it is not surprising that macro reforms that reduced formal-sector employment as part of structural adjustment left many households with few other viable economic options. In retrospect, an economic policy regime that prioritised the creation of inclusive market structures before, or simultaneously with, macro reforms might have led to poverty dynamics quite different from those shown in Figure 7.2.

The irreversible costs of poorly sequenced micro and macro reforms

The analysis presented in the previous section indicates that, at least until 1998, the macroeconomic reforms of the GEAR worked poorly for large segments of the South African population, trapping them at a low standard of living. This finding, which stands in marked contrast to the expectations of Washington Consensus-type policies, suggests that the South Africa of the mid-1990s did not have the inclusive micro-foundations needed for pro-poor growth.

These observations raise a series of questions about the sequencing of macro reforms with microeconomic policies designed to lay the foundations for pro-poor growth. Looking backwards, could South African growth have contributed more to poverty reduction if the macro reforms had been preceded by, or at least accompanied by, inclusive microeconomic reforms? Looking forward, how costly will the failure to have sequenced micro with macro reforms prove to be? What priority should be given now to reforming the micro-foundations of the South African economy?

Unfortunately, these are difficult questions, and this chapter cannot pretend to fully answer them. However, hopefully it can at least help structure our thinking on these issues as we move forward in both research and policy realms.

Perhaps the key issue to ponder is whether poorly sequenced reforms (meaning macro reforms undertaken without policies designed to alter an economy's micro-foundations) lead to destructive, irreversible effects. An example drawn from historical experience with agricultural reforms may help clarify the issues.

In a paper entitled 'Level Playing Fields and *Laissez Faire*', Brad Barham and I (1996) reported on the results of a series of microeconometric studies that looked at the impact of economic liberalisation in the 1980s on highly inegalitarian economies in Latin America. Like the more general suite of macro reforms that would later be dubbed the Washington Consensus, these liberalising 'modernisation reforms' (as they were often called) posited that they would induce pro-poor or poverty-reducing growth. De Janvry and Sadoulet (1993) make this claim quite explicit in their essay entitled 'Relinking Agrarian Growth with Poverty Reduction'. Our own work, however, indicated that the poverty-reducing potential of these reforms was cut short, or even reversed, because they were not properly sequenced with the microeconomic reforms needed to create a truly level playing field for low-wealth rural households. Our research found that, in the short term, the new opportunities afforded by liberalisation were grabbed by those producers with established access to credit, technology and instruments to manage risk. In our language, the reform-induced growth had a short-term class basis that was unfavourable from a poverty-reduction perspective.

More importantly, over the medium term, this pattern of class-based growth underwrote a pattern of class-biased growth in which the originally advantaged larger-scale producers were positioned to further expand their ownership of land. Rising land prices, fuelled by new opportunities, squeezed out smaller-scale producers, cutting off their opportunities for asset accumulation and livelihood improvement. Stepping back, the pursuit of liberalisation on an un-level microeconomic playing field not only skewed the immediate benefits of growth, but created a quasi-irreversible medium-term structural situation in which lower-wealth households confronted the future with fewer assets and opportunities than they would have had.[12] We went on to argue however, that a more careful sequencing of reforms, which assured that small-scale producers had adequate access to capital and insurance, could reverse these patterns and create the basis for pro-poor growth.

While there is much to these Latin American cautionary tales that is specific to agriculture (because larger and smaller producers were competing for a scarce factor of production, land), they do help point us in the right direction for thinking about more general micro–macro reform sequencing issues. The key question is whether poorly sequenced reforms create only short-term income losses, or whether they also cut off patterns of asset accumulation and longer-term livelihood advance.

One area in which poorly sequenced reforms may be having longer-term effects in South Africa is education and human capital attainment. Some commentators have noted how the anti-apartheid struggle created a lost generation of human capital accumulation. However, have the income distribution dynamics discussed earlier created a second generation of lost human capital accumulation? Are households that find their livelihoods collapsing toward the 'poverty-trap' equilibrium able to continue their investment in their children's educational future? Does the fact that some initially better-off households have been able to advance generate price changes (analogous to the land price increases discussed in the Latin American examples) that push quality education further out of the reach of households in the poverty trap?[13] If so, then the apparently poorly sequenced economic reforms of South Africa have created the sorts of irreversible effects that merit immediate attention as we look forward to future economic policy.

Solidifying the microeconomic reform agenda: from BIG to BAG and beyond

In the September 2003 issue of its popular periodical *Finance & Development*, the International Monetary Fund published a set of papers that revisit the wisdom of the Washington Consensus. Included among them is a piece in which Trevor Manuel (2003) argues that the government needs to take a more proactive stance than foreseen in the Washington Consensus, and must now take affirmative steps to ensure that citizens are positioned to be able to respond to the new opportunities provided by the liberalised, post-apartheid economy. In the same issue of *Finance & Development*, John Williamson (2003) more pointedly says that governments must assure that citizens have the minimum asset base and market access required to save, accumulate and succeed in a market economy.

While not cast explicitly as such, these statements by Manuel and Williamson reflect experience with what this chapter has called poorly sequenced economic reforms in highly inegalitarian economies (Manuel in the context of South Africa, of course, and Williamson in the context of Latin America). The research reported in this chapter indicates that South African families which had asset bases predicting livelihoods less than twice the poverty line fell swiftly behind toward a sub-poverty line standard of living over the 1990s. Additional research is needed to confirm whether or not this is a continuing problem, and whether or not it has been accompanied by the sort of irreversible investment losses that compromise the livelihoods of the next generation. While this research is currently under way, with the recently collected third round of the KIDS data used for this study, my intuition suggests that we will indeed find important elements of continuity and irreversible costs of mal-sequenced reforms. More importantly, governments need to act in the policy present rather than in the imagined future of empirical certainty desired by researchers.

So what is to be done? The empirical analysis identifies a minimum asset bundle without which families have a hard time advancing. Consistent with John Williamson's suggestion, this evidence indicates that a BAG is needed if people are to successfully navigate the economic terrain of contemporary South Africa. This emphasis on a minimum asset bundle stands in contrast to the notion of a BIG, which has played a role in recent South African discussions. In addition to the experience with land reform programmes (which attempt to provision rural households with a BAG), contemporary social welfare discussion in the USA and the UK has begun to shift toward asset provisioning as opposed to income grants.

While a focus on BAG programmes is warranted, treating the 2.0 PLU asset minimum (empirically identified here) as exogenously fixed is also misleading. As theoretical work on the dynamics of asset accumulation has helped clarify, asset minima emerge only in the presence of weak markets for capital and insurance. This finding prioritises the sorts of inclusive microeconomic reforms that broaden access to capital and insurance. In principle, success in this realm should reduce the size of the BAG needed for a family to use time and markets to their own advantage.

This asset focus also suggests that a slightly different optic be used in the design and evaluation of income-based social transfer programmes. Has the Child Support Grant (CSG), for example, functioned to keep children in school and prevent the creation of another lost generation of human capital accumulation?[14] More pointedly, could the CSG be redesigned in a budgetary-neutral fashion that would improve its ability to reduce the irreversible costs of mal-sequenced economic reform?[15]

The German philosopher GWF Hegel somewhere remarked that the 'owl of Minerva flies only by night', meaning that wisdom is achieved retrospectively only after the day has passed. While it would be interesting to speculate on what South African income and poverty dynamics distribution would have looked like if more thorough micro reforms had been more carefully sequenced with macro reforms in the 1990s, the forward-looking message has to be that microeconomic reforms that lay the basis for an inclusive market economy are now more important than ever. They need to be an intrinsic part of economic policy. They are not a secondary consideration that can be postponed, without cost, to some future date. While there is still much to learn about how to conduct the micro reforms, some important first steps have been taken. Building on those steps, and embedding them in a framework that explicitly recognises their design and priority, is the best chance we have for seeing a South Africa in which time and markets work for all families.

Notes

1 In his State of the Nation speech in early 2001, President Thabo Mbeki pointed to the need to move attention to appropriate microeconomic measures as essential ingredients in the fight against poverty and unemployment. Also in early 2001, Finance Minister Trevor Manuel released the most expansionary Budget seen since the change of government in 1994, an action that was repeated in 2002. In the minister's 2001 Budget speech, the shift from macroeconomic stabilisation to 'microeconomic reform' was taken further with rural infrastructure, employment subsidies via the tax system, support for targeted industries, tax concessions and special depreciation allowances to stimulate investment, especially for small and medium enterprises, and broadening access to markets being some of the new measures and policies mentioned.

2 See, for example, the debate surrounding Milanovic's (2002) study, which showed that world income distribution became less equal over the 1990s.

3 This and the section that follows draw liberally on Carter & Barrett (2005) and Adato, Carter & May (2005).

4 Within the theory of international trade, the so-called factor price equalisation theorem embodies this notion that trade liberalisation reduces inequality in lower-income countries. Wood (1997) discusses this theorem, and evidence concerning it, in some detail. De Janvry and Sadoulet (1993) apply the logic of the factor price equalisation theorem to a discussion about how macro reforms should serve to re-link growth with poverty reduction.

5 Hernando de Soto (2000) is perhaps the most visible proponent of this view. Empirical evidence supporting this perspective is, however, mixed. For example, see the review by Feder and Akihiko (1996) and the recent empirical contributions by Fields (2003) and Carter and Olinto (2003).

6 Zimmerman and Carter (2003) dubbed this level the 'Micawber threshold' as it is the level of asset poverty below which virtuous Victorian asset accumulation, of the sort espoused by Charles Dickens' character Micawber in *David Copperfield*, is not possible.

7 Note that Λ^{*}_{H} is at equilibrium because it lies on the 45-degree line where $\Lambda(A_2) = \Lambda(A_0)$; hence, an individual with an initial stock of A_0 would tend to remain at that asset and livelihood level over time.

8 There is no significance to the fact that the upper equilibrium is drawn to be the same for both convergent and bifurcated dynamics – this merely eliminates clutter in the graph.

9 This notation indicates the use of flexible regression techniques so that marginal livelihood contribution of an asset depends on the full vector of assets, A_i, controlled by the household.

10 KIDS households were originally selected at random in 1993 from the population of KwaZulu-Natal households (as part of the national-level Saldru survey), and were again interviewed in 1998. A third round of surveys was completed in July 2004.

11 For reasons discussed in Carter and Barrett (2004), flexible, non-parametric methods are used and offer significant advantages in estimating the sort of non-linear relationships that are hypothesised to characterise asset dynamics.

12 It is of course possible that over the very long term, rapid growth could fuel economy-wide capital accumulation, absorbing the poor into new employment opportunities.

13 Chiu (1998) models this phenomenon.

14 Preliminary analysis reported by Aguero, Carter and Woolard (2004) identifies a small positive impact of the CSG on the nutritional status of young children.

15 See, for example, the burgeoning literature on the Mexican Progressa programme, especially Sadoulet & De Janvry (2003).

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Section 3
Distributive issues in post-apartheid South Africa

8 Constructing the social policy agenda: conceptual debates around poverty and inequality

Julian May

Introduction

The World Summit for Social Development held in Copenhagen in 1995 recognised the 'urgent need for national strategies to reduce overall poverty substantially, including measures to remove the structural barriers that prevent people from escaping poverty, with specific time-bound commitments to eradicate absolute poverty by a target date to be specified by each country in its national context' (WSSD 1995: Paragraph 25). Perhaps the single most important commitment made by governments in relation to poverty eradication is contained in both the Copenhagen Declaration, Commitment 2(a), and the Programme of Action, Paragraph 26(b). In these documents, participating governments pledged to develop:

> national poverty eradication plans to address the structural causes of poverty, encompassing action on the local, national, sub-regional and international levels. These plans should establish, within each national context, strategies and affordable time-bound goals and targets for the substantial reduction of poverty and the eradication of absolute poverty.

These commitments were later confirmed by the UN General Assembly in its resolution 50/107 (1996) and, subsequently, the UN declared 1997–2006 the 'Decade for Poverty Eradication'. Momentum has been added by the Highly Indebted Poor Countries initiative, and the requirement of this initiative that Poverty Reduction Strategy Papers be prepared by countries seeking debt relief.

More recently, the Development Assistance Committee of the Organisation for Economic Co-operation and Development proposed the Millennium Development Goals (MDGs) as targets for poverty reduction by 2015, which included halving the proportion of people living in extreme poverty, the provision of universal primary education in all countries, the reduction of the infant and under-five child mortality rate by two-thirds and the reduction of maternal mortality by three-fourths. The 'Decade' has also coincided with the publication of a second World Development Report on poverty, the Social Summit +5, and the release of a UNDP report on poverty (World Bank 2000; UNDP 2000). In South Africa, post-apartheid governments continue to emphasise poverty reduction as a national priority and have committed the country to achieving the MDGs. The Poverty and Inequality Report prepared for the government in 1998 noted the wide range of policies that had been introduced to address poverty since 1994, while the government's Ten Year Review charts progress in the delivery of social services to the country's population in the first decade of democracy (May 2000; Government of South Africa 2003).

The events that have culminated in the 'War on Terror' and the subsequent diversion of resources away from development interventions could not be foreseen by the delegates at Copenhagen in 1995 nor even by those at the Social Summit +5 in Geneva. Nonetheless, the Decade for Poverty Eradication takes place at a time when both international and national commitment to poverty reduction appears high. This chapter reviews conceptual debates that have informed the analysis of poverty in the previous decade, and examines how these may shape future agendas in the development of social policy.

Achieving poverty reduction

The release of better quantitative data with which to monitor the extent of poverty on a global, regional and national basis has been a useful resource in assessing the scale of the task, as well as for analysing the options for poverty reduction (Deininger & Squire 1996; Ravallion & Chen 1997; Chen & Ravallion 2004). Notwithstanding continued debate over the methodologies used for measurement, the most recent analysis of the available data shows a reduction in the proportion of the world's population who live on less than $1 per day (at 1993 purchasing power parity, [PPP]) from 32.8 per cent in 1984 to 21.1 per cent in 2001 (Chen & Ravallion 2004: 30). The same data show that the absolute number of people living below $1 also declined by 189 million people between 1984 and 2001, and that the number stood at just over 1 billion people in 2001. At a less frugal poverty line of $2 at 1993 PPP, the proportion of those categorised as poor declined from 63.7 per cent of the world's population in 1984 to 52.9 per cent in 2001, while the absolute number increased by 255 million people to reach 2.7 billion people in 2001. However, there are also important regional differences in which the gains made in China and in the Middle East and North Africa are offset by rising poverty in sub-Saharan Africa. In this region, the proportion of the poor has been relatively stable at some 46 per cent ($1) or 76 per cent ($2) through this period, while the absolute numbers have increased from 198.3 million in 1984 to 313 million in 2001 ($1) or from 326 million to 516 million ($2).

The paucity of accurate data means that comparable figures for apartheid-era South Africa are difficult to come by. Simkins (1984: 181) suggests that some 81 per cent of households living in the former homeland areas could be categorised as living in dire poverty in 1980, which would have been equal to some 8.7 million people, while Wilson and Ramphele (1989: 17) provide an estimate for the same year of 50 per cent of the total population of South Africa, approximately 13 million people. In the post-apartheid period, Hoogeveen and Özler (2004: 38) adopt an approach to measurement similar to that used by Chen and Ravallion (2004), and calculate that there was an increase of 1.8 million people living in poverty between 1995 and 2000, with 12.6 million people living on less than PPP$1 per day in 1995, 31.0 per cent of the population, compared to 14.4

million in 2000, equal to 32.1 per cent of the population. At the less austere poverty threshold, they find that 22.9 million South Africans were living on less than PPP$2 per day in 1995 rising to 25.2 million in 2000, an increase of 2.3 million.

Chen and Ravallion (2004) attribute this failure to reduce poverty in all parts of the world to two proximate causes:

- Although the global economy grew at around an average of 2.5 per cent per annum during most of this period, this growth was not evenly distributed and insufficient growth took place in the poorest countries.
- Persistent inequalities within the poorest countries meant that the poor were unable to participate fully in the benefits of the growth that did take place.

While the second statement seems intuitively correct, empirical evidence supporting this view is less conclusive and has been the topic of a sometimes stormy debate over the past decade, and especially during the lead-up to the World Bank's second World Development Report on poverty reduction. Specifically, the microeconomic and institutional mechanisms that link persistent poverty and inequality remain an inadequately researched area. Moreover, as Deininger and Olinto (2000) point out, little analysis has taken account of the distribution of wealth/assets and, instead, income inequality has tended to be the favoured measure of inequality. Furthermore, there is inadequate understanding of the ways in which economic markets are structured so that the poor are not able to benefit from economic growth, and of the ways in which governments can influence this outcome, often through social policies that attempt to better redistribute government funds towards those who are least resourced.

Despite the energy directed towards poverty reduction, the prognosis for success is not promising. Calculating poverty elasticities and projecting human development indicators, and employing alternative projected long-term regional economic growth rates, Hamner, De Jong, Kurian and Mooli (1999: 561) conclude that a reduction in income poverty by 50 per cent by 2015 is unlikely for most developing countries. Indeed, the situation for sub-Saharan Africa is particularly dismal, and there is little chance that any of the poverty reduction targets will be met, including those for human development (see May & Roberts 2005 for a discussion of the example of Lesotho). In reality, the situation may be far worse than this, given that these projections are based on trends prior to 1993 and, thus, do not take account of the direct impact of HIV/AIDS on life expectancy, let alone its secondary impacts on livelihoods and well-being. Moreover, Hamner et al. (1999) stress that the pattern of growth is important, with pro-poor growth, in which there is a high elasticity of the poverty incidence with respect to GDP per capita, yielding more promising results.[1]

The global data suggest that achieving economic growth, and ensuring that the distribution of the benefits of this growth reach the poor, are critical issues in the design of public policy that aspires to achieve a reduction in poverty. This raises a concern over the limits to government action to maximise the poverty-reducing potential of economic growth.

When is growth pro-poor?

Conventionally, economic growth is thought to have taken place if the total value of all goods and services exchanged or purchased in an economy increases over some agreed time frame. Growth implies that resources have been used or transformed in some fashion that makes the end result more valuable in monetary terms. Changes in technology may mean that resources are used more efficiently, with the result that fewer resources are needed for the same or a better end product. As researchers concerned with sustainable development are quick to point out, it makes no difference whether the extra goods and services are good or useful, or are ones that it may have been better for the environment or for some segment of the population not to have been produced. Economic growth is also associated with other transformations, including the accumulation of physical and human capital, shifts in the structure of economic production from agriculture to industry, and then to services, and lessening reliance on natural resources (Kuznets 1955; Kaldor 1963). Finally, growth leads to increasingly complex institutions regulating the activities of individuals, states and markets. Growth is often accompanied by increasing urbanisation, increased water and energy usage, and more solid and water-borne waste. These transformations also bring dynamics that impact upon the net result of economic growth and the distribution of its costs and benefits.

Turning to the question of how growth might benefit the poor, that is to say be pro-poor, the current consensus among many development economists insists that poverty reduction is mainly the result of economic growth, which in turn is the result of good economic policies. Empirical studies have shown that effective economic policies for growth include adherence to fiscal discipline and, thus, low budget deficits, maintaining a competitive currency and a positive balance of payments, low and stable inflation rates, openness to trade and the protection of property rights. Other policy options being recommended include privatisation, tax reforms and the removal of market controls such as subsidies on food and essential services, minimum wages and currency restrictions. In the light of this, it might be thought that pro-poor growth is also best achieved by the consistent application of these economic policies.

Without disputing the value of sound economic policies, the notion of 'good growth and bad growth' developed by 'green economists' can be usefully extended beyond the issues of sustainable development that are their immediate concern (Douthwaite 2002). The questions become, instead, how economic growth might translate into increased income for the poor, as well as into greater benefits from the other aspects of improved well-being that are considered part of poverty reduction. Longer and healthier lives; access to information and the knowledge of how to use it; improved capacity as citizens, parents or neighbours; safety from crime, violence and hazardous employment practices may all be other characteristics of good growth. Alternatively, questions may be concerned with the causes of bad growth, from which the poor benefit only in terms of certain aspects of well-being, such as income, while losing out on others, such as health status or, indeed, experience forms of growth that actually produce poverty.

There are other ways in which 'good growth' might take place. In many developing countries where the subsistence economy has collapsed, the most direct way in which growth assists the poor takes place through the formal jobs that are created. This is particularly so when growth occurs in labour-absorbing sectors of the economy, such as agriculture, construction and clothing and textile manufacturing. Dealing with high and persistent unemployment is often used as the motivation for pursuing policies that seek to attract foreign investment and to promote exports. This is certainly true of South Africa, where employment creation remains at the top of the agenda of both the government and the trade unions, and where unpopular macroeconomic structural reforms were introduced like the Growth, Employment and Redistribution (GEAR) strategy.

A second route is by creating a better environment for the entrepreneurship and industry of the poor themselves. This would apply to many of the chronically poor who, due to their low skills and resource base, probably have little potential to obtain employment even if the economy expands. Although the informal and subsistence agricultural sectors are often not included in the calculation of GDP, many countries recognise the important role that is played by such production in boosting the incomes of the poor. Indeed, in South Africa, increasing employment in the informal sectors has been held out as evidence of successful job creation brought about by macroeconomic reforms, rather than as being one of the possible costs of adopting such policies where certain jobs are informalised. This route relies upon policies that build assets as well as improve the returns on the assets of the poor, and frequently makes use of various 'market assisted' strategies for intervention.

Also of help for the chronically poor, meaning those who are trapped in poverty and unable to improve their position through their own efforts, the greater revenue collected by the state through taxation on the expanded activity can be used for increased social spending and on further improvements to infrastructure utilised by the poor for production and reproduction. With growth, such expenditure can be achieved without the cost of increasing the Budget deficit. Broadening systems of social security, such as the Child Support Grant introduced in South Africa in 1998, are among the policy options that might be considered, as are policies that ensure the provision of basic services, such as South Africa's Community Water Supply and Sanitation Scheme.

A less direct impact is through the trickle-down impact of the improved circumstances of the less poor and the rich who are able to consume and invest more. This might increase domestic demand, especially for services like domestic labour and recreation, and promote the growth of labour-intensive small- and medium-sized business.

Finally, there may be indirect benefit through a general impact of the policies that have been adopted to promote growth, such as more stable prices, better access to the cheaper goods being imported, cheaper credit and reduced political instability and violence. This might be thought of as an indirect benefit of South Africa's GEAR, which has had some success in achieving stability in terms of inflation, the long-term exchange rate and other important macroeconomic indicators.

In contrast, 'bad growth' may be characterised as including greater output being achieved through unsustainable degradation of the environment or working conditions. The first of these, environmental degradation, has consistently received attention as awareness continues to be raised concerning pollution levels, the devastation of forests and other natural habitats and water crises in developing countries. Without effective control by governments, many countries are sacrificing their natural capital in the effort to attract investment and reach short-term targets for job creation. While the long-term consequences of this are clear, such degradation also brings short-term costs to segments of the population who still rely upon the environment for aspects of their livelihoods or as the source for meeting their basic needs. Furthermore, the least well off tend to be those who are forced to work in, or to live near, hazardous environments due to the absence of alternatives. Environmental catastrophes resulting from inadequate safety regulations also impact disproportionately on the poor. While Bhopal is probably the best known of these, many examples may be given, including asbestos poisoning in the Northern Cape province of South Africa. The degradation of working conditions may take place in more overt forms through the neglect of safety procedures, the use of child labour and low pay, as well as through the casualisation of work that removes workers from a regulated environment and ostensibly transforms them into self-exploiting entrepreneurs stripped of any employment benefits.

A second characteristic of bad growth relates to the increased costs arising from structural changes in the economy. For example, while the urbanisation that accompanies economic growth may bring better opportunities for employment and work, an unintended consequence is that many services once obtained directly from the environment must now be purchased. There are also new costs levied on obtaining services. User tariffs on water supply and the escalating cost of water provided through the private sector is an example. Once again, South Africa provides a useful illustration – it is claimed that the recently privatised water supply in Johannesburg compelled the municipality to cut the water supply of 800 households per day as a result of non-payment (McDonald 2002).

Mass-produced products may 'crowd out' local production and local technologies. If this does take place, there is a good chance that labour-absorbing forms of production and distribution may be negatively affected, and local entrepreneurship displaced. A South African example would be the collapse of the low-cost clothing industry in the province of KwaZulu-Natal in the face of cheap imports, and the subsequent loss of thousands of jobs in this sector.

The 'crowding on' of costs to future generations, other countries or other sectors is a feature of economic growth that is often overlooked. The assumption that the adoption of growth-friendly policies by all countries or regions results in a win-win situation flies in the face of much economic theory, which holds that there are almost always winners and losers. At best, such policies might simply defray the costs associated with their adoption (the example of environmental degradation has already been mentioned), or 'crowd on' the costs to other regions, or to those less able to influence policy. An example would be small-town industries unable to compete with mass-produced imports, nor able to lever mediating support from the government.

The presence of poverty-producing forces, as described by Øyen (2002), can have the consequence of growth in some sectors either requiring immiseration elsewhere or having the unintended consequence of this. The development of South Africa's minerals industry is a glaring example of the adoption of poverty-producing policies by the apartheid government to ensure a supply of cheap labour to the mines. Other examples include the impact of environmental degradation on indigenous populations in South America and the forced removal of populations arising from the construction of large dams in Asia. Structural reforms that lead to the closure of labour-intensive industries are also poverty-producing forces that may be unavoidable. The case of the clothing sector in KwaZulu-Natal is an example of the removal of tariff barriers and apartheid-era incentives resulting in massive job losses.

Having outlined some of the mechanisms that condition whether growth is good or bad, meaning pro-poor as opposed to poverty producing, it is now necessary to look more closely at the recent evidence that argues that even distribution-neutral growth would be good for the poor. This might provide some clues as to the role that could be played by social policies to ensure that poverty reduction is maximised.

Growth, distribution and poverty reduction

An important resource now available to researchers concerned with poverty reduction and growth is the large multi-country database of household surveys and national statistics compiled by the World Bank (Deininger & Squire 1996). With the correction of these data to ensure that variations in price and methodology can be taken into account, and the use of econometric modelling techniques, comparative analysis can now be undertaken of trends and the impact of differing contexts or different policy options. After a careful analysis of the relationship between changes in per capita GDP on the incomes of those at the bottom end of the income distribution, World Bank economists Dollar and Kraay (2000) use these data to conclude that the effect of growth on the incomes of the poor is no different in rich countries than in poor ones, and that the poverty–growth relationship has remained consistent over time. They then go further to claim that policy-induced growth is as good for the poor as it is for the overall economy. Despite making a number of bold policy statements on the basis of their findings, they actually conclude that very little is known about the causes of changes in the distribution of income.

Dollar and Kraay use per capita GDP as a measure of growth, and their results refer to the elasticity of average incomes in the bottom quintile with respect to overall average income. That is to say, poverty is defined in a relative sense and is a constant proportion for all the countries in their data regardless of the level of income. Growth is seen to be good for the poor if the average per capita income of the bottom quintile increases at the same rate as, or by more than, the average per capita income of the total population.

They say that improvement in the incomes of the poor from growth is not sequenced and, thus, is not due to the trickle-down effect in which improved benefits to the rich eventually lead to benefits being accrued by the poor. Instead, it is argued to follow from an improved environment for the poor to increase their own production and income.

Dollar and Kraay claim that 80 per cent of the variation in the incomes of the poor is due to variation in overall per capita income, and that just under half of the growth in the incomes of the poor is explained by growth in mean income. They show that the income of the poor does not fall disproportionately to the average person during crisis; that is, in times of recession, the average income of the poor does not fall more than the average income of the non-poor. They use this to disprove the notion that crises are particularly hard on the poor, although they do concede that a proportional fall at a lower income might be harder on the poor. Indeed, it is worth remembering that one reason why household per capita income might increase is because a member of the family has died from an illness relating to poverty.

Having shown that increased economic output has a positive impact on the income of the poorest quintile of the income distribution, Dollar and Kraay then try to identify the policies being adopted by countries that have managed to achieve this. A core set of institutions and policies is examined, including the usual formula – fiscal discipline, macroeconomic stability, openness to trade and the protection of property rights. Few might be surprised to learn that the adoption of these policies is found to contribute towards increasing the likelihood that the incomes of the poor benefit from an increase in average incomes. Finally, Dollar and Kraay investigate the impact of social spending and of formal democratic institutions using an index of voice and accountability. They describe the reduction of government consumption as being 'super pro-poor' and conclude that the income of the poor is not influenced by the presence of democratic institutions. However, once again they do point to the fact that research has been mixed about the impact of social spending and say that such expenditure may not have been well targeted towards the poor.

Dollar and Kraay conclude that the standard pro-growth macroeconomic policies are good for the poor, as they raise mean income with no significant effect on the distribution of income. At one level, this is a simple and useful message. There is nothing intrinsically negative about raising mean income in terms of its effect in raising the income of the poorest quintile of the population. However, this statement is undermined by a consistent tendency to overstate the implications of their findings and understate the limitations of their methodology. In particular, they tend to blur the difference between their measure of poverty (the income of the poorest quintile) and the broader notion of improved well-being of those in absolute or chronic poverty. Finally, their concern with 'debunking myths' leads their analysis back into the restrictive mantra of 'fiscal discipline, macroeconomic stability, openness to trade and protection of property rights' and into some sweeping statements derived from doubtful indicators of social and political structures.

However, by demonstrating that there is nothing inherently wrong with the expectation that expanding economic output will lead to a reduction in poverty, in other words that growth is distribution-neutral at least in terms of income, this research does allow a fresh start to the examination of what then does constitute growth that is both pro-poor and distributive. Admittedly, to move from accepting that growth does lead to an improvement in the incomes of the poor to an assertion that growth is the solution to poverty reduction is questionable. In their conclusion, Dollar and Kraay are in fact careful to note that growth is not all that is needed to improve the quality of life of the poor, though they make no mention of what else might be needed. As already mentioned, other researchers have noted that poverty elasticities of growth vary widely and that the impact of growth on absolute poverty is thus unclear.[2] Empirical studies use these results to demonstrate that the MDG of halving poverty cannot be achieved simply through growth and that the poverty-reducing impact of growth depends crucially on the distribution of income (Ravallion 1997; Hamner et al. 1999; Hamner & Naschold 2000; Dagdeviren, Van der Hoeven & Weeks 2000).

If anything, the Dollar/Kraay analysis demonstrates that there is a need to look beyond the broad policies that facilitate economic growth, and that deeper investigation is required to identify the different benefits and costs of growth and how these are distributed. Obviously, it is essential to recognise that promoting growth through the standard package of economic policies is important. However, this should not be at the cost of other public-sector actions that might better reduce poverty in a sustainable fashion. Instead, there is a need to find the correct balance between those interventions conventionally described as economic and those often branded rather disparagingly as social policy.

As Lipton (1997) has shown, it is evident that the major thrust of the development debate over the past decade regarding the relationship between growth, development and the reduction of poverty and inequality has shifted significantly. Traditionally, there was a broad consensus that growth would be helped by and/or associated with increasing inequality, a notion often linked to the (in)famous hypothesis of Kuznets (1955) to this effect. This was contested by scholars emphasising the importance of 'growth with equity' and redistribution as a basis for subsequent growth (Adelman 1995). More recently, theoretical arguments that link aggregate growth to inequality have led to renewed interest in this debate. A conclusive, empirically-based analysis of the correlation between particular rates of growth and rates of inequality, especially in terms of assets, has yet to be presented.[3] While some models maintain that redistribution would reduce growth (Persson & Tabellini 1994), a broad stream of literature now suggests that redistributive efforts by the government could, through increased investment by the poor, actually lead to higher growth (see Aghion et al. 1999; Bardhan et al. 1999). Indeed, the positive impact of growth upon the reduction of poverty may be dampened at higher levels of inequality (Bruno et al. 1996). This is because inequalities in physical, financial and human assets may result in microeconomic inefficiencies that constrain poor people from participating effectively and efficiently in the economy, which could lead either to inequitable growth or, depending on the depth of poverty and inequality, to low growth.

The UNDP (1997: 74) has offered several explanations as to why a converse relationship might hold, that is, that poverty reduction might facilitate economic growth. Several of these lend support to the view that asset distribution, accumulation and use are central to the growth–poverty reduction nexus. As poverty tends to result in behaviour based on risk aversion, the reduction of poverty might increase willingness to take entrepreneurial risks. Poverty also tends to restrict spatial mobility, as those who are poor lack the resources required to move in search of better opportunities, transport their produce to markets, or carry the costs of a sustained job search. In addition, high levels of poverty limit the investment in human capital, especially in terms of the education and health status of children. Finally, poverty also brings with it increased vulnerability, with the result that assets are permanently lost when households face shocks such as injury, theft or natural disasters.

In support of this view, Deininger and Olinto (2000) point out an important shortcoming of much of the analysis linking growth and inequality. Although most of the theoretical analysis concerning the relationship between growth and inequality identifies the link between distributional issues and economic growth as being through differential access to assets, the majority of empirical studies look only at income. This can be taken one step further since the ways in which assets are used and accumulated may result in the persistence of poverty over time, forcing our attention onto the processes that determine household livelihoods and the markets that structure the relationship between assets and income.

The experience of the East Asian countries, in particular, indicates that one of the dimensions buttressing their high economic growth rates has been the implementation of policies that focus on more equitable human resources development and on asset redistribution. Increasing the access of the poor sections of the society to productive assets is a related dimension. Specifically, the newly industrialised countries of East Asia had a range of state-led interventionist policies, which focused on human resources development, mild financial repression such as keeping interest rates low but positive, directed credit and selected industrial promotion policies that focused on non-traditional exports (Chandra 1997). In many cases, government action went well beyond the conventional set of stabilising macroeconomic policies to include asset redistribution, in which land reform and investment in human capital was common. This raises the question of whether conditions have changed to the point that such action is no longer possible or desirable for poverty reduction.

Are economic policies sufficient for poverty reduction?

To achieve poverty reduction, most IMF and World Bank economists recommend the standard set of economic policies mentioned earlier that are expected to produce specific economic reforms. Macroeconomic policies focus on monetary, fiscal and exchange rate policies that achieve macroeconomic stability. The macro imbalances to be avoided include high and variable inflation, high government deficits, the overvaluation of currency and restrictions placed on the movement of capital. Structural economic reforms refer to policies that promote efficient resource usage and provide incentives for competition and for private enterprise. These include policies that remove barriers to trade and to investment, and promote the transfer of ownership of certain state enterprises to the private sector.

Although this 'Washington Consensus' is frequently disparaged, few policy analysts would disagree with the underlying potential of such macroeconomic policies in avoiding bad, poverty-producing growth. High inflation negatively affects those who rely upon wages as the principal source of income, and who are unable to save in high interest-earning accounts. It also prejudices those with a limited ability to purchase goods on credit, while eroding the tax base and, consequently, the ability of the government to sustain social expenditure. High inflation has an adverse impact on the investment decisions of the rich and the poor. While the wealthy may try to invest in offshore accounts, the poor may invest in unproductive stockpiles as a hedge against future price increases. Overvaluation of an exchange rate can negatively affect the incomes of the rural poor whose livelihoods are often dependent upon exports of agricultural commodities, and will also reduce the competitiveness of other low-cost exports. Of course, underevaluation can also prejudice the poor by raising the costs of imported inputs, such as oil and technology, while also increasing the costs of products that are consumed nationally as well as being exported. An example is food, especially grains, in South Africa where the exchange rate crisis in 2001 provided a boom for exporters, but also had a knock-on effect whereby local food prices increased by 20 per cent during 2002.

Government spending that is far beyond available resources may lead to excessive borrowing from banks by the government, which in turn fuels inflation and results in a substantial portion of the government's resources being allocated to servicing interest payments. No one would deny that countries need to balance their budgets, and that budget deficits should stay small. However, as Jeffery Sachs (2001) has argued, the budget austerity that this requires means that impoverished countries cannot keep their populations alive because budgets for essential services such as health, education, food transfers and so forth are too small. Debt servicing further erodes these budgets, while policies designed to seduce international investors may cause resources to be allocated towards meeting the needs of the wealthy and the foreign. Chossudovsky (1998) notes that cutting expenditure on these services also impairs the collection of information on poverty, resulting in the irony of a decline in *recorded* infant mortality in sub-Saharan Africa in the face of closing health clinics and the laying off of health professionals.

Perhaps ironically, then, calls for government action on poverty reduction, such as those contained in the Copenhagen Declaration, have come at a time when it is also clear that the options for such action have become increasingly constrained. The influence that governments can bring to bear on the path of economic growth and, particularly, on the ways in which the distribution of the benefits of growth are determined has been eroded throughout the 1980s and 1990s. Traditionally, resource limitations have been the constraint most often cited by governments. These include the lack of financial resources as well as institutional capacity with which to implement policy. While these remain important, global trends, macroeconomic conditions and the changing institutional context are also believed to have closed off possibilities while narrowing the range of policy options open to governments. For much of the 1990s, 'globalisation' became a new rallying call for advocacy concerned with the plight of developing countries.

In line with this, economists from the perspectives of both neoclassical economics and political economy have argued that economic reform and fiscal prudence are not enough to achieve pro-poor growth. Examples of the former include Ul Haque (1994) and Goldsmith (1995), while a special edition of *Third World Quarterly* in 1996 provides an edited volume with examples of the latter analysis. Dutt, Kim and Singh (1994) provide useful empirical support from both perspectives, while the events leading up to the preparation of the 2001 World Development Report showed that the debate is far from being resolved (Kanbur & Lustig 1999; Dollar & Kraay 2000).

Responding to this challenge, Sachs (2001) sees four pillars to the escape from poverty, of which economic reform is only one. A second pillar is having a population that is healthy and educated enough to participate in the global economy. This is a tall order given the need for several forms of literacy, including computer and communications proficiency, not to mention a high degree of economic literacy. Many poor countries face widespread disease (malaria, AIDS, TB and cholera, to name a few), they have degraded tropical soils or, in the case of South Africa, soils degraded by policies of forced overcrowding into labour reserves, and they have scarce clean water. Many believe that poor countries cannot clear these hurdles on their own and that budget support rather than project support is needed.

The third pillar identified by Sachs is technology. Despite the rhetoric of the 'market', developed countries spend substantial public funds on research and design. With their budget constraints, there is no way in which this can happen in poor countries in which universities and other research institutions remain critically short of research capacity. Linked to technology is access to information at a cost affordable to the poor and in a medium accessible to the poor.

The fourth pillar is structural adjustment. This does not refer to the structural adjustment promoted by the IMF and World Bank during the previous two decades, which many argue has contributed towards diminished capacity for governance and increasing poverty. Instead, in this context, structural adjustment refers to policies that change the underlying structures that produce goods and services in an economy and that distribute the benefits of this production. This might mean export diversification, or moving up value chains in which more processed goods are produced, or identifying new sectors in which a competitive edge can be achieved. Movement up a value chain implies that raw materials are further processed within the country and that higher-value items are thus exported. This increases the jobs resulting from the production or extraction of raw materials. A South African example is the export of wood pulp rather than timber for paper production. This is a question about the type of growth that is being pursued, and identifying sectors and forms of production that have displayed the characteristic of reducing poverty. The underlying rationale is to move away from a limited base of primary commodities, already shown to contain 'growth-retarding' and 'poverty-producing' tendencies, and gain access to the markets of rich countries that are sheltered by tariffs. Equally important are mechanisms for avoiding, or at least managing, the destruction of local industries through imports from other poor countries, equally desperate to find markets in places more open than Europe and the USA. Not mentioned by Sachs, but potentially a component of structural adjustment, is the possible need for considered policies that promote the redistribution of assets, whether land, education or access to finance, and policies that provide for social protection, such as provision for old age, the support of children and the regulation of the workplace.

A fifth pillar, also not mentioned by Sachs, is recognition of the historical slate. Many poor countries are plagued by the results of disastrous policies of previous regimes, often arising from the absence of democratic rule. The impact of apartheid in South Africa is an example; the impact of wars in many other parts of Africa is another. Decisions to bow down to the bad advice of international agencies by governments too disempowered to disagree, or by former elites who stand to gain by kowtowing in this fashion, might be a third example. However, a clean slate is obviously an unachievable requirement; instead, what is required is the recognition that the context within which policies are expected to operate will vary from country to country, and will change over time. This is another reason why generalised analyses such as the Dollar/Kraay study fail to provide sufficient information for policy development in the context of the 'real' world in which history, power and politics matter.

Conclusion

While it is encouraging that research has shown that economic growth does not necessarily prejudice the poor, at least in terms of consumption-based indicators, it does not seem unreasonable to also conclude that the role of government in facilitating pro-poor growth is more complex than neo-liberal polemic would have us believe. Instead, the results of high economic growth and rapid reduction in poverty and inequality have been achieved through a combination of market-oriented and interventionist policies. It also does not seem evident that distribution-neutral growth will be sufficient to permit poverty reduction, other than in the narrowest sense, or that even in this narrow sense, significant poverty reduction will occur in anything like a reasonable time horizon, or that existing levels of inequality will have a neutral effect on poverty-reduction outcomes from growth. In particular, inequalities in asset distribution have been found to be negatively related to poverty reduction. Of interest then is how states and markets operate to support or hinder pro-poor growth that is more than simply distribution-neutral. This implies balancing the previous focus on macroeconomic policy with appropriate microeconomic interventions.

To the extent that Sachs' four (or five) pillars provide some direction, market and social policy reforms as well as direct state intervention will be required if the poor are to push ahead. These would need to involve redistribution measures that improve the access of the poor to productive assets, such as through land reform, the delivery of infrastructure and financial market reform. Other supply-side measures will be needed that reduce the costs of production, including transaction and information costs, as well as interventions that ensure protection during childhood, working life and old age. Social policies of protection and regulation that assist those at the bottom of the income distribution to better manage both adverse and positive events that might occur during their lives are also required, along with economic reforms that help them to derive greater benefits when using the assets that they do possess.

In South Africa, some of these policies are already in place to some extent. However, in the case of others, for example land reform, implementation has been slow, or the benefits have been captured largely by the non-poor, for example through privatisation (Bond 2000; Cousins 2000). In addition, coverage of South Africa's social policy has been described as 'neither adequate nor comprehensive', the efficiency of the delivery of services has been questioned, while the impact of HIV/AIDS on all aspects of South Africa's policy for poverty reduction remains uncertain (Bond 2000; Whiteside 2002). Furthermore, the development of appropriate policies continues to rest on an inadequate knowledge base. The linkages between macroeconomic and microeconomic policies have received little attention globally, and the real operation of markets remains another area in which insufficient information has been collected. In many instances, the determinants of the behaviour of poor producers and consumers are assumed without being empirically analysed. To fill this gap in South Africa and elsewhere, better data are required, along with a rigorous microeconomic analysis of the asset accumulation behaviour of poorly resourced households and the impact of existing government interventions. Without this, the agenda for appropriate social policy remains little more than an outline of possible options without any mechanism through which these can be judged.

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Notes

1 In these circumstances where growth is not simply distribution-neutral, consistent per capita growth rates of 2.0–2.8 per cent would achieve the international targets for income poverty by 2015 (Hamner et al. 1999: 556).

2 Poverty elasticities refer to the percentage change in the proportion of people below a poverty threshold produced by a percentage change in economic growth. Poverty elasticities may be thought of as a measure of 'good growth'.

3 The UNDP, the World Bank and independent researchers have undertaken various studies. See, for example, Bruno, Ravallion & Squire (1996), Anand & Kanbur (1993a, 1993b) and Bourguignon, De Melo & Morrisson (1991). Lipton (1997) provides a useful summary of the emerging consensus about the definition, measurement and policies for the reduction of poverty, while Piketty (1999) brings together the theoretical literature in support of this argument.

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9 Gender and social security in South Africa

Francie Lund

Introduction

There has been a great deal of interest, at the end of the first decade of democracy in South Africa, in establishing what distributive gains there have been to poorer people, in terms of allocation and reallocation of resources, and the impact this has had. The South African system of state social assistance has become the focus of attention, as it has been acknowledged to contribute effectively to both poverty alleviation and reduction. With renewed global attention to the role of the state in interventions that provide pathways out of poverty, the pensions and grants attract the interest of international scholars and development agencies. South Africa is one of the few countries that has experienced a significant growth in social security spending, and one of the very few that has recently introduced a wholly new social benefit, the Child Support Grant (CSG). However, there has as yet been no gendered analysis of the scope, coverage and impact of the main components of social assistance, and this chapter attempts to lay the basis for this. As preliminary as this analysis is, its purpose is to draw attention to the many research gaps that exist, in the hope that a comprehensive programme may be stimulated.

An approach to the gendered analysis of social security

Some core dimensions of a gendered analysis are identified below. The point of entry of this approach, however, must be the reality of the AIDS epidemic. This is introducing new demographic patterns, and affects men and women differently. It is exerting social and economic pressures in the labour market and in the domestic sphere, affecting both production and reproduction. This has an impact on the needs for and the responses to social security. Each of the dimensions that follow is influenced by the epidemic.

The social assistance component of social security, which is funded solely by the state, has to do with addressing the situation of people who are poor. Patterns of poverty are deeply gendered: women tend to be poorer than men, girls more vulnerable than boys, older widows more vulnerable than older widowers. In South Africa, the gendered patterns interact with racial patterns, with race having been the determining feature for the allocation of resources and opportunities under colonialism and then apartheid.

All social security systems are designed around assumptions about the gendered division of labour in the family, and are premised on the idea that those who work are able to get some access to social benefits through work. In countries with histories of colonialism, systems of social security and assistance in general were modelled on those of the colonial state, and this was the case in South Africa. From the beginning of the twentieth century, the early programmes of state social assistance were designed to protect the white population against poverty, and the system gradually grew in scope and coverage to include all the racially classified 'population groups'. As in Britain, social security was based on the 'male breadwinner model', which contained assumptions of a nuclear family in which the male head would be in full employment, and the mother's primary role would be homemaker and child-rearer. The work of the male head of the household would give access to work-related benefits such as unemployment insurance, workers compensation, and savings for retirement through pensions and annuities, and some family benefits, including maternity benefits for those women who did work.

Worldwide changes in the nature of work and employment have had an effect on working people's access to work-related social security. As summarised by Lund and Srinivas (2000), there has been a decrease in the numbers of people, proportionate to the whole workforce, who are in the kind of formal employment that offers basic social benefits such as pension provision, compensation for work-related disability, health insurance and maternity benefits. The benefits of many formal workers are capped; other formal workers keep doing the same work but lose the benefits in the process of contractualisation. New entrants to the labour market are less likely ever to get access to such benefits. Through all these processes, employers have less responsibility for the 'social wage'. This has happened at the same time (and as part of the same neo-liberal macroeconomic policies) as the reductions in social spending by many industrialised and developing countries. A gendered analysis of social security would seek to understand how these changes in the labour market and in state provision differentially affect men and women, in other words, to understand how the labour market itself is a gendered institution.

The labour market is of course also a *provider* of social security and social services, and in this respect is also deeply gendered. Most workers in the welfare, social security, health and education services are women, and there is strong gender segmentation with regard to status and income level in 'the helping professions'. These professions have presented career opportunities for women of all races. Those at the top of these professional hierarchies are more likely to be men, who control the setting of standards, service priorities and budget allocations.

The state, as provider of health and welfare, can decide to privatise aspects of provision, for example of welfare services. That which the state or the formal private sector provides in the fields of health and welfare is only a small fraction of the caring work that gets done in a society; the rest of that work is overwhelmingly done by women, as family members or as voluntary workers. Thus, the interaction between social security and the care economy – the unpaid, non-market work done in people's homes – must be woven into a gendered analysis. The care economy refers to 'the economic costs and benefits of care, the division of labour involved in various types of care, and the contribution of care to economic growth and development' (Ogden, Esim & Grown 2004: 4). Some social security benefits are specifically designed to compensate for such provision of care, and the carers are mostly women. Other grants, not designed with a specific care purpose in mind, may come to shore up and enable informal care.

The approach presented here suggests that a gendered analysis of social security would need to reconstitute or bring together in one place what are often approached as separate factors for analysis: the needs of men and women for support over the life cycle; the interaction between changing patterns of work and employment and the need for social assistance; the state as provider of employment to those supplying health and welfare services; the relationship between state social spending and 'social wage' provision; and the interaction between privatisation of aspects of welfare and the care economy. Across all of these, in the South African context, the analysis must try and grasp the intersection of gender with race, class and space.

State pensions and grants: access and targeting

There are five main state-provided grants.[1] All are means-tested, paid from general revenue and paid monthly either in cash or through deposits in banks or post offices. The three in the field of support for children are: the Care Dependency Grant (CDG) for the caregivers of children with severe physical and mental impairment; the Foster Care Grant (FCG), which is aimed to encourage the support by non-kin of children whose parents are unable to care for them; and the CSG, which is intended to reach children who live in poor households. For adults, the Disability Grant (DG) is intended for those with mental and physical disabilities; its award at 18 years of age signifies that it is targeted at those unable to participate in the labour market. Finally, elderly South Africans are entitled to an Old Age Pension (OAP) if they do not have sufficient means to support themselves. There is a further small complementary amount in the form of a War Veterans Pension, which goes to those (mostly men) who fought in certain wars.

Table 9.1 Incidence and value of the main social assistance grants, month of February 2003

Type of grant	Number of beneficiaries	Level of grant	Value of grants paid out
Child Support	2 972 966 (to 1 920 680 caregivers)		416 215 219
Foster Care	81 903	R460	52 291 552
Care Dependency	42 074		26 016 595
Disability	823 792	R700	521 293 601
Old Age Pension	1 941 729	R700	1 230 374 592

Source: Woolard (2003), using Social Pension System (SOCPEN) data

Ingrid Woolard (2003) uses government data to show the number of beneficiaries, the level of the monthly grants and the amount aid out for the five main grants, for the month of February 2003. Table 9.1 shows that just short of six million people received grants, which were worth a total of R2 250 million in that month. Woolard has estimated that the grants allocations constituted about 3 per cent of GDP, and about 13 per cent of all government spending in March 2004.[2]

The pensions and grants are intended as a mechanism of redistribution, especially in addressing racial and spatial patterns of poverty and inequality. How many of those entitled to receive benefits actually do so? The OAP is probably the easiest for which to estimate the take-up rate, though two assumptions have to be made: that chronological age is accurately reported and recorded, and that the means test is fairly applied. The OAP is received by more than 80 per cent of all elderly South Africans, the vast majority of whom are African. It is received by more women than men, and women receive the pension earlier than men, and for longer, given their greater longevity (Ardington & Lund 1995).

The take-up rate for the DG is more difficult to estimate. First, the assessment of disability is objectively more difficult to establish than chronological age, and gatekeepers may apply more rigid or more flexible rules depending on their disposition. The racially separate apartheid welfare administrations applied different criteria for the extent of disability necessary for the award of a grant, and it is clear that administrative discretion has been at work for many years. Take-up rates remain particularly high in certain magisterial districts of the Northern Cape, for example, whereas there is no reason to expect that disability should be distributed according to magisterial district boundaries.

There has been little if any research on the differential access of men and women to the DG, nor on the articulation between compensation for work-related injury (which men receive more of, as they are more likely to be in the kinds of formal work covered by such industrial legislation) and patterns of receipt of the DG. The AIDS epidemic will mean that many more people (and more women than men) will be eligible for the benefit. By the end of 2004, only the Western Cape province had stipulated conditions for eligibility. A tragic impasse is looming: the government has to identify an objective criterion for eligibility; the blood-count threshold is such an objective criterion; a person with an AIDS-related illness needs food to remain well nourished to keep the blood count high; a poor person will find the DG an indispensable source of income to keep healthy; yet for eligibility for the DG, the blood count has to be so low that the person is well on the way to death.

The three child-oriented grants pose different problems in terms of estimation of coverage. The CDG is intended for children with severe mental or physical impairment, such that they require full-time care (which is usually done by women). Indeed, the intention behind the grant is that it will obviate the need for a child to be admitted to more expensive full-time institutional care. Take-up rates are very low, and this is partly because in the past the grant was effectively not available to rural black South

Africans, and was extremely costly to apply for. Applications for the grant have increased rapidly recently, probably largely because of better public knowledge about it since 1994, as well as through more children becoming eligible because of AIDS-related impairments.

The CSG was introduced in April 1998 as a means-tested monthly cash benefit of R100, payable to the primary caregiver of children up to their seventh birthday (the level increased to R180 in March 2005 and the age of eligibility was extended to 14 years). It was intended to go to about 50 per cent of all children up to seven years, that is, it was estimated that at least half of all South African children of that age group were poor. As Table 9.1 shows, as of February 2003 it was awarded to 1.9 million caregivers on behalf of nearly 3 million children.

An investigation of the roll-out of the CSG was undertaken in the approximately 11 000 households in a district of KwaZulu-Natal (Case, Hosegood & Lund 2005). This study, undertaken through the Africa Centre for Health and Population Studies, will henceforth be called 'the Umkhanyakude study'. In 2002, four years after the CSG was introduced, about one-third of the 12 000 children up to the age of seven in this remote rural area had applied for or were receiving the grant. Applications were being processed rapidly, and nearly everyone who applied was awarded the grant. There were no differences between girls and boys as to grant application or receipt.

Some of the barriers to access to the CSG appear to be related to patterns of male authority in interlinked relationships in domestic and working life, and within formal and informal administrative rules.[3] Women working on commercial farms are dependent on male employers for transport to application points and pay points; in some provinces, women have to show proof they have applied for private maintenance from fathers; in some towns, affidavits about parenthood have to be issued at police stations, where the majority of staff are men, rather than at the welfare department. In all of these situations, women applicants are operating from a subordinate position of power.

With regard to targeting of the OAP and CSG, it has been well established that the grants are going to the poor households for which they are intended (see Case & Deaton 1998 for evidence on the OAP). Woolard (2003) uses data from the 2000 Income and Expenditure Survey to show that 66.8 per cent of reported income for the poorest quintile of households comes from grants, 13.4 per cent for the next poorest quintile, with the other three quintiles together reporting only 8.0 per cent of total income from this source. She also assesses the poverty impact of the OAP and the CSG, in particular, which again strikingly demonstrates how many more elderly and poorer children would be in poverty without the grants. The Umkhanyakude study showed that the CSG was targeted at poorer households (Case et al. 2005). Given that nearly everyone who applied for a CSG was awarded it, it was apparent that a process of self-selection was at work, with the grant amount being so low that only poorer people were applying.

Compared to both the OAP and the CSG, relatively little is known about how the DG is targeted. As regards pooling of the DG, Schneider and Marshall (1998) hold that there is clear evidence of income sharing, but there is nothing in their study or in others on the gender dynamics of this.

With regard to the scope of state social assistance, then, millions of South Africans directly receive state social assistance, and the next section will discuss how many more people in the households of beneficiaries are reached. Relative to other countries with similar levels of development, the assistance is extensive. However, many millions more poor South Africans do not receive assistance (Meth, cited in Hunter et al. 2004). The system is uneven and patchy, and this provided the central motivation for the Taylor Committee's recommendation for a Basic Income Grant. Little attention has yet been given to modelling the likely gendered effects of this universal grant, should it be introduced.

Caring for children

For many years, the bulk of spending on social assistance was on pensions for elderly people, and for adults with disabilities. State Maintenance Grants (SMGs) were available for less than half a million women and children, with a marked racial inequity, in that black Africans had scarcely any access. The SMG was phased out at the same time as the CSG was introduced. The introduction of the CSG, the phasing out of the SMG, and the rapid increase in allocations for the FCG and the CSG have shifted the composition of social assistance spending more towards children, especially towards black children in rural areas. At the same time, there have been reforms in the system of private parental maintenance. These reforms combine to present a host of questions about gender and social security in the field of child support.

Fertility and support for women and children

For centuries there has been controversy about the relationship between financial support to women and fertility rates and family structure. The introduction of the CSG in South Africa has been accompanied by popular concern that it will lead women to get pregnant, and this appears to have taken on the status of urban and rural legend. Some anchor their unease in a broader concern about the fertility rate, identifying high population growth as a barrier to development, or as a cause of continuing poverty. Others express a conservative moral worry, fearing that cash benefits will 'cause permissive behaviour'. Yet others quite specifically worry that the CSG will 'cause teenage pregnancy', and this is grounded either in fears that it will encourage permissiveness, or in the fact that girls become mothers before they themselves have matured, with negative implications for the health and well-being of both mother and child.

Concern about fertility rates has a long history in South African racial politics. In the 1960s, whites were infamously called on by the Vorster government to have more children; the Population Policy under PW Botha's government was intended to reduce black fertility rates, and the rationale provided was that South Africa was going to run out of water! The history of the SMG is illuminating in that it shows how income given to mothers and children appeared to have no effect on the fertility rates of the different population groups. Up until 1996, this grant was payable to mothers and their dependent children, where the spouse/father of the children had died, had abandoned the family, or had been committed to a prison or mental hospital for more than six months. Where a mother qualified for a grant for herself and four (later two) children, the amount received was higher than the OAP.

By the 1980s, all population groups were legally entitled to the SMG, but it was received predominantly by the coloured and Indian population. Whites were largely means tested out of access, and African people were simply unable to access the grant except in a few mostly urban areas. The Indian fertility rate decreased in the presence of the SMG, and the white fertility rate decreased in its absence. The fertility rate of coloured people declined in the substantial presence of the SMG. The African fertility rate declined, but more slowly than the coloured rate, in the absence of the SMG. There was, however, an exceptionally high teenage pregnancy rate among the African population. Driving this was a combination of factors, among others the lack of empowerment of girls, the lack of information amongst boys and girls, the high levels of personal and domestic sexual violence and coerced sex, unprotected sex with multiple sexual partners, and probably the lack of decent role models for boys. These deeply troubling factors continue to exist, and are related to lack of choice, lack of empowerment and of employment, and lack of parental guidance. These problems, which existed prior to the CSG, merit serious research and intervention.

Missing fathers

Apartheid policies of residential segregation and the migrant labour system did lasting damage to South African family life. Colonialism and then apartheid imposed a system of family separation, and the legacy of fractured families remains. The Umkhanyakude study on the CSG was able to investigate the parental status of children in the Africa Centre's demographic surveillance area, using the Centre's database. This has information on the parental status of all children in the area. A child's parents can be classified as resident, non-resident, dead, or a fourth category, which is not resident, not non-resident, and not known to be dead. For convenience that fourth category can be referred to as 'missing'.

As can be seen in Table 9.2, in the Africa Centre's demographic surveillance area, 82 per cent of the children for whom a CSG grant was reported, and 67 per cent for whom grants were not reported, were resident with their mothers. A very high proportion of children had fathers reported as 'missing' – 52 per cent of the children for whom the CSG was reported, and 60 per cent of the children for whom grants had not been reported. Thus, the father's whereabouts was simply not known for more than half of children younger than seven years old in this area, and in more cases where children had not been in contact with the CSG than where they had. There appears to be no reason

Table 9.2 Parental status of children younger than seven years of age (percentages), Umkhanyakude study

Parental status	**Children for whom a CSG *is* reported**	**Children for whom a CSG *is not* reported**
Mother and child both resident members of same structure	82	67
Mother is non-resident member of child's structure	10	14
Mother is dead	2	4
Mother is not resident, not non-resident, and not known to be dead	6	16
All mothers	**100**	**101**
Father and child both resident members of same structure	24	20
Father is non-resident member of child's structure	16	16
Father is dead	7	4
Father is not resident, not non-resident, and not known to be dead	52	60
All fathers	**99**	**100**
Total number of observations	4 684	8 181

Source: From Table 1 in Case et al. (2005)

Note: The differences between means in the two samples is significant at the 1.0% level.
Figures do not total 100% because of rounding.

for a respondent to misrepresent the father's status. This serious absence of fathers *preceded* the introduction of the CSG.

Primary caregiver

The new benefit for the support of children introduced the idea of a 'primary caregiver': the person applying for the grant on behalf of a young child did not have to be the biological parent, though it was hoped it would be the mother. This was designed to allow for the complexity of household structures and caring patterns, especially in poorer households in South Africa (Republic of South Africa 1996). As expected, those applying to be primary caregivers (PCGs) have predominantly been women. In the Umkhanyakude study, 87 per cent of PCG applicants stated they were the biological mother of the child; a further 11 per cent were a grandmother or an aunt, and fathers were designated PCGs only 0.2 per cent of the time (Case et al. 2005). Mothers applying were older, and more likely to be married or widowed (i.e. not single and unmarried) than the mothers of children for whom no application had been made. There were many children eligible for the CSG for whom application had not been made; it was the presence of the child's mother that was the most important predictor of whether a child would get a grant. A child whose father had died was significantly more likely to receive a grant; this was not the case when the mother had died. This has serious potential implications for those children who are not being applied for, and also for the extension of the CSG, because as children get older they are less likely to live with their mothers.

While it is known that few men are applying to be the caregivers, little if anything is known about how decisions are being made about who applies to be the primary caregiver. Are there discussions about who should apply? Do men put up a fight? If men do accept that women should apply, what is their understanding of why this is acceptable? Is it because it is about child support, supposedly the woman's domain? And is there any relationship between the CSG going to female PCGs and the pervasiveness of the erroneous belief about the CSG 'causing teenage pregnancy'?

The loss of the State Maintenance Grant

The SMG was phased out over a period of three years, and it is certain this would have occasioned a financial crisis for the majority of the approximately 200 000 women beneficiaries. There has been no systematic investigation of the effects on women and children of the loss of this source of income. What happened to those who lost the grant? Who found work, what sort of work, and how did they find the work? Did households split up and recompose? Were there movements to town from rural areas? How have other grants been relied on to substitute for it? What has the effect been on children's progress in school? Have the effects been different for girls and for boys? Some ten years later, there is still time for good qualitative retrospective research about the effects of the loss of this form of state support.

Child-headed households

The HIV/AIDS epidemic is leading to very high rates of orphanhood, raising concerns about who will look after children over the next decades. Child-headed households have become visible as a policy issue, but there is as yet little research that identifies how big the problem in fact is, because losing one or both parents does not equate directly with losing household membership. The Africa Centre's demographic surveillance area covers some 11 000 households (a few urban, but mostly rural) in an area with exceptionally high AIDS rates, and where AIDS appeared early. Only six of these households were recorded as child-headed in 2002 data collection. Even one child-headed household is cause for concern, and is one too many. However, an additional, urgent policy issue is how to support and encourage those extended families who keep orphaned children, and especially how this impacts on the roles and responsibilities of grandparents (particularly grandmothers), when the middle generation succumbs to AIDS-related illnesses. Furthermore, there is an urgent need to anticipate, now, what will happen to caring patterns and capacities over the next three decades, as the children of AIDS orphans will not have grandmothers to care for them.

The private maintenance system and parental custody

The private maintenance system is the means through which a spouse and parent can claim for material maintenance for themselves and for their children from the former partner. Interest groups in civil society have worked over the years for the reform of the system, which historically has worked to make already vulnerable women even further vulnerable (for example, a mother has to prove that the father is working by approaching his employer for proof). There have been important recent legal reforms, but much discretion remains in the hands of the (mostly male) clerks of the courts, it remains costly to women to apply for maintenance, and the system still exposes them to risk. In parallel to this reform of private maintenance, there have been several court cases in which fathers have contested their exclusion from equitable access to their children in the case of separation and divorce.

Pensions for elderly women and elderly men

By far the largest amount spent on social assistance goes to the pensions for elderly people (see Table 9.1); in 2001, the OAP received just over 5 per cent of all government expenditure (Hunter et al. 2004). Some ten years ago, the pensions for elderly people were held to be:

> a significant source of income, with marked distributive effects; they are a reliable source of income, which leads to household security; they are the basis of credit facilities in local markets, further contributing to food security; they deliver cash into remote areas where no other institutions are; they are gender sensitive towards women; and they reach rural areas as few other services do. (Ardington & Lund 1995: 571)

These arguments were based on triangulating results from a number of local, provincial and national data sets; subsequent research has upheld these findings (see especially Van der Berg 1997; Case & Deaton 1998; Moller & Ferreira 2003).

There is great interest in the effect of the OAP on the status of older people in households, older women in households, and whether households restructure in response to the presence or withdrawal of a pension. Many older people receiving pensions live in three-generation families, and these were a feature of African household structures before the pension came to be of any significant size. There are more young children in households with pensioners (Case & Deaton 1998). Some research suggests that households compose themselves around pensioners (likening them to a 'magnet'), but it is difficult to prove causal relationships here. Until recently, restrictions on the black population's labour and residential mobility, and on access to land, kept people trapped in certain areas of the country, laying down historical patterns that may yet take some years to change.

Several studies (for example, Moller & Sotshongaye 1996) point to the self-esteem that the pension bestows on elderly people in their households, and the point sometimes also gets made that this must be important for the position of elderly women. Many women with pensions are household heads, but most became household heads through widowhood, not through setting up their own households *ab initio*. Some have described the conflicts that occur around the pension, especially the way in which younger unemployed men lean on pensioners for some share of the monthly amount (Breslin, Delius

& Madrid 1997). Not nearly enough is known, however, about the intra-household dynamics surrounding the pension – status, roles and decisions about how the pension gets spent. Especially, there is a lacuna in knowledge about the inter-generational dynamics between older and younger women in the same household. It is customary in rural areas for a woman to join her husband's household on marriage, and the younger woman is in a subordinate position relative to her mother-in-law. The dynamic of this relationship may now begin to be influenced by the fact that some younger women can receive the CSG money in their own right.

The gender sensitivity of the old age pensions

The OAP has been held to be 'gender sensitive' in that it goes to women earlier than to men (at 60 for women compared to 65 for men), and as women live longer than men, they receive it for more years (Ardington & Lund 1995). Two factors, one demographic and the other constitutional, may change this situation. More women than men are being infected with HIV, and women's life-expectancy rates have fallen lower than men's. There will be fewer pensioners, overall, and there will be a shift in the proportion of women to men who receive the OAP, with fewer women receiving pensions. The pro-women bias in the OAP will also be affected if there is a change in the age of eligibility. Some have tried to argue that the younger age of eligibility for women can be seen as an *ex post facto* redressing of some of the accumulated disadvantages that they face, and that other countries have this pattern as well. It is very probably unconstitutional, however, and may be challenged. Given the decrease in life expectancy for both women and men, it is easier now to argue that if there is gender equalisation, it should be in the downward direction, that is, at age 60 for both sexes.

The socio-economic effects in households of pooling pensions

The South African pensions system has presented a fertile laboratory for research about the impact of sizeable state programmes of support. Three strands of research suggest that: first, pension money buys general household goods, and enhances health and food security for the whole household; second, and furthermore, pension money that goes to women is spent better than that which goes to men; and, third, pension money that goes to women gets preferentially spent on granddaughters over grandsons.

Numerous studies have dealt with the first and second items together – that pension money buys general household goods and enhances household and food security, and that which goes to women pensioners buys 'better things' or 'gets spent better' than money which goes to men pensioners. Anne Case (2001) investigated the relationship between pension income and health in black and coloured households in Langeberg, Western Cape. Households were compared according to whether pension income was pooled or not (84 per cent and 16 per cent of households respectively). Whether pensions were pooled or not, they had beneficial effects on the health of the pensioners themselves. This included, importantly, a significant effect on decreasing depression. In non-pooling households, these effects were only experienced by the pensioners themselves. In pooling households, for both black people and coloured people, the pension income protected the health of all adult household members, and the presence of a pensioner was positively and significantly correlated with an increase in children's height. The effects were more marked when the pensioner was a woman. Regarding the effects on children, Case held: 'That the pension is protective of children's height, and thus of children's long-run nutritional status, may prove important in a country where many AIDS orphans will live with elderly relatives in the next decade' (2001: 18).

Esther Duflo (2003) used the Project for Statistics on Living Standards and Development (PSLSD) data to investigate the relationship between the OAP and the health and nutrition status of children. She demonstrated that there was a link between grandmothers and granddaughters, or to put it simply, that 'grandmothers prefer girls', as evidenced by the better nutritional status of granddaughters whose grandmothers were receiving pensions. This finding is puzzling in that it runs counter to the widely held view that girl children do not receive preference over boy children with respect to what is given them to eat; in fact, if there were thought to be a bias, it would go in the other direction, towards boy children. It would be useful to push for better understanding of this, using other data sets.

The Umkhanyakude study of the CSG found that there was a positive and significant association between grant receipt and enrolment in school, with grant receipt leading to an 8 per cent increase in enrolment (Case et al. 2003). This is particularly remarkable given that the parents of the children who receive grants were less well educated, and the children lived in poorer households.

Pensions and labour supply

Fraser and Gordon (1994) provide a historical review of the enduring debate about whether welfare 'creates dependency' on the state, a debate that has been expressed in different ways at different times. Underpinning this is the fear that those on welfare benefits will not need to work or, worse still, not want to work. In South Africa, the apartheid policy of racial capitalism underdeveloped and distorted markets in rural areas, and imposed a migrant labour system in which (mostly) rural men were away from home most of the time, in order to have work. High rural unemployment rates coexisted with large numbers of non-resident or absent household members. The omission of employment data relating to migrants, which happens in many surveys, can lead to serious errors of interpretation, as: 'Migrants are not an average cross-section of the economically active age group. They are predominantly male, employed and better educated than their peers who remain at home' (Ardington & Lund 1996: 40–41).

A recent study (Bertrand, Mullainathan & Miller 2003) sought to investigate the association between the South African pension and the participation of other household members in the labour market. Their research asked whether there were others apart from the pensioner who benefited from the OAP, and whether certain family members were more able to reduce their labour supply than others. They looked at the labour supply of relatives living with a pensioner, using the PSLSD data set for KwaZulu-Natal. Their hypothesis was that 'such large pension transfers could be expected to result in intrahousehold redistribution that leads to significant behavioural responses, such as a reduced willingness to participate in the labour force among family members not originally targeted by policymakers' (Bertrand et al. 2003; 29).

They found that the pensions dramatically reduced the labour supply of prime-age adult members, especially men, and that the pensions ended up being 'captured' by a group not originally targeted (Bertrand et al. 2003). Their 'reduced willingness to participate in the labour force' echoes the concern about welfare creating dependency. Yet, unemployment is so high, and the search for jobs is so desperate, that it seemed less than credible that all these men would voluntarily leave the labour market. Further investigation revealed that non-resident household members had been omitted from the analysis, partly because the PSLSD survey from which the data were drawn did not ask for employment-related information from such people. In that survey, three-quarters of the non-resident members surveyed were absent specifically for the purpose of obtaining employment. In KwaZulu-Natal rural African households, there are more people absent, looking for work, than there are people resident and working.

A re-analysis of the same data led to different conclusions (Posel, Fairburn & Lund 2004). There does indeed seem to be a relationship between a pension coming into the household and labour supply, but of a different order, with different gender implications. There is an association between women receiving the pension, and younger women in the household going in search of work. It is impossible to tell, given this data set, whether the pension pays for the costs of job search, or whether the pension somehow changes household dynamics about childcare, enabling young mothers to leave young children in the care of older women.

The pension-day markets

Pensions and grants may be paid into banks or post office accounts; in rural areas they are largely paid monthly in cash at pension pay points. In 1995, the main economic transactions on pension days appeared to be between pensioners (or their household members) and vendors; observations of pension payouts in 2001 and thereafter showed how much they had grown, and that now the whole community was involved in the pension-day markets (Adato, Lund & Mhlongo 2004). Retailers brought goods in bulk into the area, and the research team could do no household interviewing on this day as all households were doing their general household shopping. In an area in the north of KwaZulu-Natal, traders from at least two other countries were present (from nearby Swaziland and remote Botswana). Local people sold goods they had produced or procured locally, including vegetables from household plots and from communal gardens, livestock that had been raised in a project supported by the Department of Agriculture, and natural resources such as honey and indigenous herbs.

The introduction of the CSG has brought changes to pension-day markets. Younger women (primary caregivers of children receiving the CSG) are now present and this gives the day a very different feel and flavour. One can speculate that this new collective event for younger women must have an impact on social relationships (by analogy, the increasing numbers of funerals must have changed social and economic relationships). Many women are involved in small businesses at the markets, while the larger retailers coming in from outside tend to be men. Adato, Lund and Mhlongo (2004) describe the situation as follows:

> In this same research site, there was a noticeably better-off area, where houses were large and solid. A knowledgeable local informant was asked to explain how the owners of the large houses had accumulated their wealth. In all cases, the answer was the same: either a household member had a job in government employment, or someone had started with small retailing at the pension market, and grown the enterprise from there. In two of the latter cases, people had grown their enterprises to substantial fixed shops.

It would be extremely difficult to do a detailed gendered analysis of the employment-creating effects of the pension-day markets. There is much suspicion and tension on those days, because of the amounts of money involved, and because there appears to be a degree of complicity between some in government and selected private insurance providers in giving access to the pensioners who have just received their state social assistance.

The interaction between public and private provision of social security

A recurring theme in this chapter is the relationship between work and social security: how social security schemes were built with reference to assumptions made about who was in work, for how long, and with what dependents. The labour market is itself a deeply gendered institution, in terms of who participates, on what terms and with what rewards and disadvantages, at what stages of their lives. While the focus here has been on public aspects of social provision, a gendered analysis would be incomplete without considering, even if not fully discussing, aspects of work-related provision that impact differentially on men and on women.

Contributions are made by employers and employees, with a subsidy from the government, to the Unemployment Insurance Fund (UIF). There are five statutory benefits for categories of formally employed workers – unemployment, illness, maternity, adoption, and dependents of deceased contributors (Norton 2002). Of the approximately 5 million contributors to the UIF, a larger percentage of economically active men than women contribute, which one would expect given the patterns of men and women in formal employment. In the past, poorer workers (who are more likely to be women) received smaller benefits. Amendments to legislation in 2001 brought significant improvements for all covered by the scheme, and especially to those on low incomes and to women. Higher payment now goes to lower income workers, and domestic workers (the vast majority of whom are women) and seasonal workers are now eligible for benefits. In the past, the maternity benefit was linked to the unemployment benefit and so discriminated massively against women, who got reduced entitlements to the unemployment benefit if claiming the maternity benefit. The two have now been separated. With regard to the adoption benefit, all those currently claiming are women (Hunter et al. 2004).

Occupationally-related social security is an important pillar of the overall system, but it covers less than 10 per cent of all workers in South Africa. State social assistance, and especially the OAP and DG, is compensating for severe deficits in coverage. In the *Socio-Economic Persistence of Poverty and Inequality* study,[4] for example, the following was recorded about a pensioner called Philip:

> Philip lives in the Newcastle area, and worked for Spoornet for 17 years. He was retrenched with a package of R17 000. He has a state old age pension. His daughter is employed in a garment factory in Newcastle. When work is available she works seven days a week with no days off, and gets paid around R90 a week. She fell in the factory and had to go to hospital for two weeks. It was clearly a work-related injury. Her father's state pension was used for her transport to hospital, her treatment, and her medication. (Interview 19 September 2001)

In this cameo, the state pension clearly plays a role when there is an accident at the workplace and there is no employment-related compensation for workers. The contributions formerly paid by employers to insure people of working age have been substituted by a state payment to elderly people.

There is a need for much deeper analysis of the interaction between private and public systems of social provision. There is a need for better questions in national surveys, as well as rigorous qualitative studies of, for example, how people cope when provision disappears, and how patterns of informal care compensate for inadequate coverage by the state and the private sector.

Work and employment in the welfare sector

The civil service is the largest employer in South Africa, and is virtually the only formal source of employment in most rural areas. It employs women in large numbers, especially in the professions of nursing, teaching and social work, as well as in administrative positions. There is strong gender differentiation between the 'social cluster' of health, welfare and education, and the more 'male' occupations such as engineering. The starting salary of a newly qualified engineer was R125 000 per year in 2004. That was the same salary level as a senior social worker, with the same years of university training, who had ten years of working experience, and was supervising and managing a team of other professional and administrative staff.

Two recent trends in South Africa have gendered effects on the employment of those who provide welfare services. The first has been the large-scale outsourcing of the delivery of the state pensions, which formerly was done by government personnel. The large and profitable contracts have gone to the male-dominated world of security firms. The pension queues have come to be guarded by armed personnel hanging out of armoured cars and helicopters – a paramilitary escort delivering cash to the poor and vulnerable. The second trend has been the privatisation of residential facilities for elderly people. The apartheid welfare services developed an extensive system of government-subsidised homes for mostly white elderly people. With subsidies now declining, many facilities have been privatised. Some elderly residents simply bought their places in the facilities; others, however, had to return to or be taken into private homes of family members. This is likely to have increased the demand for unpaid care by (female) family members or for low-paid (female) carers.

Towards improved understanding of social security

A social programme of this size and importance merits serious and ongoing assessment. The system rapidly drew attention over the last decade or so, and will continue to do so. Future research needs to correct a number of problems of interpretation that, if unchecked, could have serious implications for social policies.

First, there has been an incremental misinterpretation of the historical growth of the system. Racial discrimination in the system was finally overcome in 1993; a number of authors have misinterpreted this to mean that there were fundamental changes, especially in the level of the pension, from 1993 onwards. There is a certain convenience to this, in that 1993 was the year that the creditable PSLSD survey was done. However, to interpret this as meaning that 'before 1993 there was nothing, then there was everything' is seriously misleading. The pension reform was a gradual process that started in the mid-1980s. One understands how it is quite unbelievable to people (South Africans and others) that the social security system was put in place, and equalised, by the apartheid government.

Second, as a source of income, pensions and grants are consistently overestimated relative to other sources of income, for the following reasons (Ardington & Lund 1996; Lund 1999): the amount of a social assistance benefit is common public knowledge, and in many areas the means test is not really applied, so it does not have to be estimated by the interviewer or the interviewee in the complex way that income from other sources has to be estimated; income from informal activities, from agriculture and from illegal activities is consistently underestimated; and income and assets from migrants is consistently underestimated, probably mostly through problems of recall, and because it is no longer sent as regularly as in the past. The importance of the pensions as a source of household income thus 'stands out', and this tendency is stronger the lower the income level.

This, in turn, reinforces statements about the so-called 'generosity' of the system, which now appear in many assessments. There has been a tendency to focus on poverty in African households only. Authors then compare the size of the OAP income only to African incomes and, in some cases, only to African incomes in rural areas, and find the amount of money 'very generous' or 'large', for example saying that it is twice the median per capita income in rural areas. Yet, markets in rural areas were intentionally distorted – this was one of the hallmark policies of the apartheid government, leading to the massive unemployment that there still is today, especially in the former homeland areas. The OAP is a redistributive measure, and it would be better to compare the size of the OAP with overall median incomes.

Third, the focus on the OAP has detracted attention from the many other needs of elderly people, and obscures the fact that there are few *other* services for older people as older people. One of the arguments used by a number of researchers (the present author included) to support the pension for elderly people was its effect not only on the status and well-being of pensioners themselves, but also indirectly on the whole household. The pension 'bought' a significant amount of care for other household members, it had a demonstrably positive effect on the health status of other household members, it had a role in start-up costs of small businesses and enterprises, and it secured agricultural inputs (for a summary of some research in this area, see Lund 2002b). These effects have been used to buttress arguments for continuing state spending on this social security measure. However, elderly people really do need financial and other forms of support for themselves, and the focus on its efficacy for the household at large obscures this. The amount available to older people is substantially reduced by the sharing.

Conclusion

This chapter has attempted to lay the basis for a gendered approach to the study of social security in South Africa. 'Gender' is often used as if it is something about women, and as if women are a homogeneous category. However, it is about the analysis of relationships of power between men and women, and between women of different generations and classes. The system of state social assistance is of immense material importance to the poor who receive its benefits, and is a significant mechanism of redistribution, especially in the context of the AIDS epidemic. The gendered approach taken here has helped draw attention to the serious gaps in knowledge about the scope of the system and its socio-economic effects.

The overview of research has shown how much the focus has been on the OAP and the CSG, and the lacunae that exist for the other grants. Further work is needed not just on a grant-by-grant basis, as it were, but also in exploring how different sources of income in households interact with each other, and how intrahousehold decision-making about these sources takes place. More work is also needed on the welfare system as a provider of employment, on the effects of the balance of public- versus private-sector provision on gendered patterns of employment, on the dynamics of the care economy, and on the interaction between these.

Notes

1 Hunter (2002) provides an annotated bibliography of recent research on the impact of social security, and Hunter and Rushby (2002) do the same for research on living conditions of those who receive social assistance. Van der Berg and Bredenkamp (2002) give a concise yet comprehensive overview of the nature and coverage of both private and public social security provision. A Social Protection Expenditure Review (Hunter et al. 2004) provides details of state- and occupation-related social spending, giving allocation by sex where possible.

2 Ingrid Woolard, personal communication, 2005.

3 I am grateful to Beth Goldblatt for bringing this observation to my attention.

4 This study was nested in the larger *KwaZulu-Natal Income Dynamics Study* study which was a 2001 collaboration between the School of Development Studies, the International Food Policy Research Institute, the Catholic University of Peru, Lima, and the University of Madison-Wisconsin.

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Section 4
Industrial upgrading and innovation

10 The *noledge* of numbers: S&T, R&D and innovation indicators in South Africa

Jo Lorentzen

Introduction

The technological trajectories of countries depend on a multitude of factors. Key among them is knowledge, and more specifically its production, absorption and exploitation. Although this is an important recognition in its own right, it raises more questions than it answers – what sort of knowledge, produced by whom and for what purpose, and with what time value? Knowledge is 'roots and rocket science', in other words, it spans traditional and tacit insights into the therapeutic properties of indigenous plants shared by a community at one end, and the results of rational scientific discovery and their codification in individual intellectual property rights at the other. The producers of knowledge advance our understanding of how things work, and why; the outcome may be anything from the hydrogen bomb to the hydrogen car or even the supply of safe drinking water to the 1.2 billion people in the world currently without access to it. Finally, much like any other asset, intellectual capital is subject to depreciation, and successful past practices in agriculture or industry are no guarantee against technological lock-ins.

Knowledge needs to be understood to become useful. Its absorption, the process of learning, takes place in more or less formalised ways. Indigenous knowledge is often passed on through the spoken word, and the relationship between teacher and apprentice may be highly idiosyncratic. By contrast, knowledge transmission and generation in highly organised societies tends to be structured around a system with various layers of education, training and investment in research. Learning 'happens' within this knowledge infrastructure. This goes, *inter alia*, for kids in more or less well-equipped schools, students in technical colleges with more or less relevant curricula, managers in firms with a more or less developed understanding of the international technology frontier in their product range, and scientists in public research institutes with a more or less mission-oriented remit concerning the applicability of their discoveries.

Hence, technological trajectories result, in part, from the quality of the knowledge infrastructure and the degree and the rate of absorption of both the existing stock of knowledge and additions to it. This has systemic character – with little or no communication between a scientist in an experimental lab and a design engineer in a firm, even a promising invention may never make it to market. Put differently, an excellent knowledge infrastructure does little for technological accumulation unless it accommodates, facilitates and promotes learning across the constituent elements of the system.

In view of the importance of knowledge for technological progress, the Organisation for Economic Co-operation and Development (OECD) has been monitoring the performance of the knowledge infrastructure of member countries since the 1960s. At about the same time, a few academics in North America and Europe began a research tradition in the economics of technical change, which by the 1980s had matured into a widespread and influential preoccupation with national innovation systems (NIS). Thanks to a number of large-scale comparative research programmes, there is now a rich body of literature that links learning, or absorptive capacity, with knowledge infrastructures. Governments are eager to exploit this information because the literature suggests important links between learning and international competitiveness.

More recently, the increase in global competition and the popularisation of the notion of the knowledge society have spurred on the efforts of developing countries to gain a better understanding of their knowledge infrastructure. South Africa is no exception. From the 1996 White Paper on Science and Technology (DACST 1996) to the 2001/02 *R&D Survey* (DST 2004) the country has come a long way in terms of creating an inventory of its knowledge supply. The format of the inventory allows for international comparisons and is designed to influence science and technology (S&T) policy. However, it is not clear that these benchmarking efforts by themselves make much sense and, worse, they may actually lead to ill-conceived policy conclusions, because they take place in the absence of an understanding of how learning occurs, especially insofar as industrial firms are concerned. This shortcoming is the focus of the chapter.

The chapter is structured as follows. First, it reviews a key instance of learning, namely business–science relationships (BSRs) and their relative importance in innovation. It describes international experiences with BSRs and discusses attempts to compare them across countries. It then contrasts what is known about South Africa's knowledge infrastructure with what is not known about the dynamics of learning within it, and shows why one without the other makes for incomplete or outright bad policy advice. The concluding section points to the need for more research into local learning.

Business–science relationships in the knowledge economy

It is easy to establish why, in principle, science matters for economic growth and development. Economic growth depends prominently on the creation and exploitation of knowledge. Science institutions such as universities are repositories of knowledge. They also advance science and create new technologies that, especially if transferred to the business sector, help firms to innovate. Firms, in turn, are the most important agents of technological innovation. Of course, the private sector has always commercialised science, albeit to varying degrees, depending on sector, country and historical period (Nelson 1993), and firms have sometimes pioneered technological developments without much interaction with university scientists. However, it is beyond doubt that BSRs have grown in importance over the last 25 years or so. Evidence shows a rise in the share of new products and processes in a wide range of industries developed in reference to recent academic research, along with a decline in the time lag between academic research results and their commercial offspring (Mansfield 1998; see also Furman, Porter & Stern 2002; and OECD 2004a: Figure 3). Industry has been funding a growing share of public research and development (R&D), which in the OECD averages at just above 5 per cent (OECD 2004b: 17).

The division of labour between researchers in universities, public labs and industry is less clear-cut than in the past. It has become more difficult to distinguish between basic and applied research. The blurring between curiosity in academia, mission orientation in the public sector and profit orientation in industry – exemplified by fields such as structural genomics – complicates the interface between science systems and industrial innovation, and has given rise to much soul-searching regarding the design and expected benefits of science and innovation policy (OECD 2004a).

Figuring out the dynamics of BSRs presupposes an understanding of the changing characteristics and interests of the various actors involved in innovation (see Agrawal 2001 for a good overview of the literature, or Bozeman 2000 for a review of the USA experience). First, in the presence of increased competition and more rapid product life cycles – along with the standard market failures that bedevil R&D – innovative firms succeed best if they can focus their own research competence as well as access and exploit external knowledge, possibly in conjunction with other firms. Benefits accrue to research synergies that manifest themselves in cost savings or improved R&D productivity, R&D cost sharing and keeping up to date with major technological developments. In short, thanks to co-operative R&D, firms learn, make better products and employ better processes (Caloghirou, Tsakanikas & Vonortas 2001). Especially in view of the tacit nature of much of the transferable knowledge concerned, the connection to the open science community is important for the utilisation of university research (Cockburn & Henderson 1998 in Agrawal 2001).

Second, although many knowledge transfer channels between universities and public research organisations, on the one hand, and industry, on the other, continue to be informal, formal technology alliances between science institutions and firms are on the rise, as are spin-off companies run by academic entrepreneurs, all this in the context of generally accommodating intellectual property regimes and expanding markets for technology. Lee (2000) reports for the USA that these relationships are sustainable because academics and managers allow the partner the pursuit of his or her own interests while also contributing to the mutual goal. Conversely, when academics fear that working with industry (regardless of whether this happens independently or in the context of reduced public funding) may impact negatively on education, research and general university integrity, they are less willing to support co-operation (Lee 1996).

These alliances have undoubtedly changed the face of universities, although concerns about a shift to more applied research at the expense of basic research seem, at least on average, unfounded. The explanation for the growth in licensing patented inventions originating in academic research lies rather with an increased inclination of the inventors to patent and of firms to outsource R&D (Thursby & Thursby 2000 in Agrawal

2001). This question cannot be solved theoretically; more empirical research is needed to assess the possibly deleterious effects of BSRs on the quality and quantity of fundamental science, the research infrastructure, and the relative freedom from restrictions on research uses by peers (Poyago-Theotoky, Beath & Siegel 2002; see also OECD 2004a).

Third, apart from the direct relationship between science and industry, the spatially concentrated knowledge spillovers associated with it influence the location of innovative activity (see, for example, Audretsch & Feldman 1996 in Agrawal 2001). Smart regions are more likely to benefit from smart investments, although it would be naïve to believe that university–industry–government links would always be more than the sum of their parts (Hagen 2002). Nonetheless, this implies that those regions and countries most in need of innovative activity do not stand much of a chance to get it at all.

Finally, regions once characterised by a record of innovative activity may lose their edge. Best and Forrant (2000) recount the attempts by the University of Massachusetts Lowell to stem and reverse the decline of the Merrimack Valley by imbuing university labs and traditionally blueprint-reading supplier firms with a sense of strategic direction. Absorptive capacities thus matter for both the realisation of and the possible gains from BSRs. Clearly, this has implications for developing countries.

International BSR benchmarks

Many countries eagerly evaluate their innovation record against their competitors. For example, in 2000, Taiwanese engineers ranked tenth in terms of the number of papers published in the Engineering Index, up from thirteenth place in 1993. Taiwanese inventors also registered more patents in the USA than any other country, except for the USA, Japan and Germany. Yet, the majority of critical components and manufacturing technologies used in Taiwan are imported. In view of fiercer competition from China and other parts of Southeast Asia, this raises the question as to why an impressive R&D performance does not translate into more much-needed, widespread improvements in innovations and technological capabilities among Taiwanese firms, and to what extent the interaction between industry, universities and public research institutes is at fault (Chang & Hsu 2002). In sum, both the successes and the shortcomings of innovation performance are relative measures that make little sense when looked at in isolation.

In theory, the rationale behind comparisons of BSRs is twofold. First, we want to find out about the relative efficiency of the interaction in meeting the aims and objectives of the concerned stakeholders. Thus, governments are interested in the social return on public investment in research, and expect BSRs to address systemic failures in economy-wide knowledge generation and diffusion. Universities hope for financial support beyond core funding and aim to ensure promising employment prospects for their graduates. Firms, in turn, are keen on well-trained human capital and useable scientific knowledge. Second, we want to tie observable differences in performance to observable characteristics of BSRs (OECD 2002). In principle, this would allow us to conclude that one type of BSR is better than another.

However, in practice this runs the risk of becoming an apple-and-orange exercise. There is no sound case for the existence of one best innovation practice – perhaps the single most important reason for benchmarking (Kastrinos 2001). Global pressures on innovation do provide a common motivation in favour of science–industry collaboration, which over time may well lead to similar manifestations of knowledge management and indeed break down select barriers to cross-border knowledge sharing. However, BSRs are part of larger innovation systems, and we know that despite (and in some sense because of) globalisation the constituents and characteristics of these systems continue to differ in major ways across countries. This applies, *inter alia*, to the managerial, organisational and technological make-up of firms and how they respond to incentives for innovation; the public institutions that perform and fund R&D; the trends driving funding and performance patterns of R&D; and also the scientific disciplines in which countries are historically specialised in the first place (see Carayannis, Alexander & Ioannidis 2000; OECD 2002).

Hence, it is undoubtedly possible to compare select inputs and outputs of innovation systems, but it is far from certain that the resulting crude indicators would lead to insights that lend themselves to formulating sound and sensible policy. This is because the ratio of one output variable amongst many (e.g. scientific publications or patents) over one input variable amongst many (e.g. public spending on basic research), as frequently used for measuring differential productivity levels of countries, flies in the face of the complexity of interactions that make up an innovation system (see Barré 2001 for an entertaining mockery of an official British attempt to establish the superior efficiency of public research spending in the UK compared to France).

For a start, to be valid, any relative measure requires that one compares like with like. A pharmaceutical company in Country A may be as inclined to explore patentable molecules as a rival in Country B; but if Country A excels in rocket science while Country B is a society of poets and sopranos, a comparison of overall patent productivity would have little or no heuristic value. In other words, since R&D intensity varies from sector to sector, and industrial specialisation varies from country to country, aggregate comparisons of R&D intensity are only relatively meaningful. Similarly, if a pharmaceutical firm manages to commercialise a new drug derived from a bio-diverse region in developing Country C, while failing to do so in developing Country D, a whole host of explanations may apply. Only one relies on an institutional framework more conducive to innovation activities in Country C. Others would be that Country D is better at protecting its resources against bio-piracy by foreign firms, or that commercialisation is based on an indigenous knowledge tradition that contradicts the requirement that a patentable product be 'new' or, finally, that there is a strong public interest against affording the product in question temporary monopoly rights. Therefore, country preferences matter, as do the regulatory frameworks through which they are mediated, both nationally and multilaterally.

In sum, the existence of systematic differences among firms, sectors and countries must be acknowledged. Comparisons must be sensitive to the conceptual and data problems this raises. A good comparative analysis will attempt to look at systems as a whole and not discount, but focus on, their heterogeneity (Smith 2001). Contextualisation is imperative. Only then are comparisons likely to yield meaningful and useful lessons about the underlying dynamics among actors that ultimately account for innovation.

This is easier said than done. Developing input and outcome metrics is an exercise fraught with conceptual problems even if the unit of analysis under observation is technology transfer activities between science and industry within one country. Counting instances of technology transfer is one thing, establishing process metrics and measuring outcome metrics quite another, and there is no generally agreed theoretically satisfactory standard (Carayannis & Alexander 1999). Shifting the unit of analysis to countries compounds the difficulties. Roughly a decade into research of national systems of innovation, Patel and Pavitt (1994) called for an improvement of the empirical basis for evaluating these systems, including a better understanding of the dynamics of technological learning; another ten years on, this challenge rings just as true (see also Carlsson et al. 2002).

The most promising work in this area combines a conviction that much can be learned about different systems by comparing them, with a willingness to assemble data that are at least in part hard to get and a healthy dose of caution with respect to the level of generalisation their analysis permits. In a benchmarking study commissioned by the European Commission and the Austrian Federal Ministry of Economy and Labour, Polt et al. (2001, especially in Figure 2) evaluated what they termed industry–science relations (ISRs) – defined as institutionalised forms of learning that provide a specific contribution to the stock of economically useful knowledge – along three dimensions, namely the nature and relative channels of interaction; the characteristics of the main actors and the demand and supply they represent on the knowledge market; and the framework conditions, replete with incentive structures, that provide the setting for the knowledge market. Table 10.1 illustrates the mass of data used to describe the three dimensions in select EU countries, the USA and Japan. Yet, while the researchers suggest that levels of ISRs may indeed inform the knowledge-production structures of countries varying from high-technology specialisation (e.g. Finland) via cumulative development along traditional technology trajectories (e.g. Germany) to fast-follower strategies aimed at technology diffusion in traditional industries (e.g. Italy), they caution against concluding that a higher level of ISR somehow necessarily translates into a better innovation system. Firms can obviously exploit other avenues of knowledge acquisition; a low level of ISRs could go hand in hand with an intensive intra-industry R&D co-operation (Polt et al. 2001).

All countries covered in the aforementioned study are advanced OECD economies with complex innovation systems. It makes sense to study BSRs, or any other subsystem for that matter, within the context of the broader knowledge infrastructure. The focus on scientific knowledge is warranted insofar as these countries embody knowledge-intensive production. What happens within their BSRs is likely to affect large and increasing parts of the national economy. By the same token, the dynamics of BSRs are likely to

Table 10.1 Data used in the Polt et al. (2001) study on ISRs

ISR indicators

Type	**Indicator**
Contract and collaborative research	R&D financing by industry for HEIs in % of HERD R&D financing by industry for PSREs in % of GOVERD R&D financing by industry for HEIs/PSREs in % of BERD
Faculty consulting with industry	Significance of R&D consulting with firms by HEI researchers Significance of R&D consulting with firms by PSRE researchers
Co-operation in innovation projects	Innovative manuf. firms that co-operate with HEIs (%) Innovative manuf. firms that co-operate with PSREs (%) Innovative service firms that co-operate with HEIs (%) Innovative service firms that co-operate with PSREs (%)
Science as information source for industrial innovation	Innov. man. firms that use HEIs as inform. source in innov. (%) Innov. man. firms that use PSREs as inform. source in innov. (%) Innov. serv. firms that use HEIs as inform. source in innov. (%) Innov. serv. firms that use PSREs as inform. source in innov. (%)
Mobility of researchers	Researchers at HEIs moving to industry p.a. in % Researchers at PSREs moving to industry p.a. in % HE graduates at industry moving to HEIs/PSREs p.a. in %
Training and education	Income from vocational training at HEIs in % of R&D exp. Vocational training particip. at HEIs per R&D employee at HEIs Share of students carrying out practices at firms during their study in %
Patent applications by public science	Patent applications by HEIs (and individual HEI researchers) per 1 000 employees in NSEM at HEIs Patent applications by PSREs (and individual PSRE researchers) per 1 000 employees in NSEM at PSREs
Royalty incomes by public science	Royalties in % of total R&D exp. at HEIs Royalties in % of total R&D exp. at PSREs
Start-ups from public science	Technology-based start-ups at HEIs per 1 000 R&D personnel Technology-based start-ups at PSREs per 1 000 R&D personnel
Informal contacts, personal networks	Significance of networks between industry and HEIs Significance of networks between industry and PSREs

Knowledge-production structures

Variable	**Indicator**
R&D expenditure	BERD in % of GDP HERD in % of GDP GOVERD (incl. non-profit private) in % of GDP Change in GERD as % of GDP
Size, structure and ownership of firms	Share of enterprises > 10 000 employees in BERD in % Share of BERD carried out by domestic firms in %
R&D activities by innovative small and micro enterprises	Share of continuously R&D performing small manuf. firms (20–50 employees) Share of continuously R&D performing medium-sized manuf. firms (50–249 employees)

➔

Patent activities by innovative SMEs	Share of small manuf. firms having applied for a patent Share of medium-sized manuf. firms having applied for a patent
High-tech orientation	Share of BERD performed in high tech in % Share of BERD performed in medium to high tech in % Share of BERD performed in IT services, private R&D, in % Number of high-tech patents per mill. of pop. Triad patents per mill. of econ. active pop. Share of firms in total basic research perf. in %
Disciplinary orientation of science	Share of natural sciences in total HERD in % Share of engineering in total HERD in % Share of NSEM in total R&D personnel at PSREs in %
Excellence of science	Impact factor of scientific publications in natural sciences (cit. per pub.) Impact factor of scientific publications in engineering sciences (cit. per pub.)
Financing of R&D	Share of HERD financed outside GUF in % Direct gov. funding of BERD in % of GDP Venture capital invested in % of GDP
Market dynamics in new technologies	Diffusion of Internet in % of pop. Share of new products in turnover in % (manuf. only) Mobile telephone users in % of pop.

Institutional settings

Type	Indicator
Institutional structure of public research	Universities Polytechnics and HE colleges Primarily transfer-oriented PSREs Large research centres with strategic missions PSREs specialised on basic research Departmental PSREs, others
Governance of public research	Competition-based financing in HEIs Competition-based financing in PSREs Third mission of universities Technology transfer as part of evaluation in HEIs Relevance of private HEIs Thematically specialised PSREs with transfer mission Industry representatives on advisory boards etc. of PSREs
Intermediary infrastructure	Technology transfer offices in HEIs Commercialisation enterprises, transfer institutes in HEIs Science parks and incubators in HEIs Intermediaries at level of industry associations etc. (Semi-) public technology and innovation consultants for SMEs Regional consulting networks Information service provision for technology transfer Significance of private intermediaries Joint industrial research networks at sector level

Source: Polt et al. (2001, Tables A1 and 2); OECD (2002, Table 10)
Note: HERD = higher-education R&D; GOVERD = government R&D. BERD = business R&D; HEIs = higher-education institutions; PSREs = public-sector research establishments; NSEM = natural sciences, engineering (incl. agric. sciences) and medicine; GUF = gross university funding.

be relevant to consumers and producers regardless of the extent of their direct exposure to them. In short, analyses of BSRs are justified in high-income countries simply because what goes on in these relationships matters for how most people live and work.

The picture is much more complicated when we look at developing countries. At the bottom of the technological ladder, the emphasis on science and R&D is meaningless. In countries where most people cannot read and write, scientific knowledge is not the most important source of innovation, much like intellectual property is obviously not the most important right in need of legal protection. Without incorporating local and traditional knowledge one cannot hope to grasp the dynamics of innovation in societies where, say, the preparation and therapeutic use of a plant-based ointment with palliative properties is passed on from mother to daughter while its molecular structure is not just unknown but also beyond the realm of anyone's curiosity. This presents a challenge for NIS research because its subject – advanced industrial economies – introduced a bias in favour of scientific knowledge that influenced its heuristic focus and attendant methodologies. It is clearly easier to study the interaction between foreign technologies and local knowledge when both can be talked about in the language of scientific discovery. For example, although lean management was pioneered by Japanese car makers, industrial and production engineers in the USA and Europe were able to analyse its processes and implement its features in their own automotive plants. What happens when a bio-prospector from a pharmaceutical firm in the North hires the mother and daughter to find out which leaves they collect for their herbal medicine, complicates the interaction conceptually and raises problems of empirical verification that the NIS framework is only beginning to appreciate (see Arocena & Sutz 2000; Lundvall, Johnson, Sloth Andersen & Dalum 2002). The continuing relevance of the NIS approach will depend on how successfully it addresses these issues.

In advanced latecomer countries, universities and other science institutions exist alongside industrial firms, and it is instructive to analyse how efficiently they contribute to the production and use of knowledge (for an example, see Passos, Terra, Furtado, Vedovello & Plonski 2004). Presumably, in this relationship lies part of the explanation for the above-average growth rates of patent registrations at the European Patent Office and the US Patent and Trademark Office by firms from developing countries as diverse as Argentina, Romania and South Africa (OECD 2003: Table A.12.2). However, the degree to which BSRs directly or indirectly contribute to human livelihoods is arguably more important. In highly unequal or dualist societies, BSRs often contribute at best to isolated pockets of excellence. For example, analyses of the pharmaceutical sector in Brazil or India are woefully inadequate if they ignore indicators such as infant mortality or, more generally, access to the gains from BSRs in the domestic market. Both countries commit roughly one per cent of GDP to R&D and are important manufacturers of generic drugs, but only Brazil provides HIV-positive people with free antiretrovirals. To the extent that science and industry rely on a broad-based knowledge infrastructure across a range of simple skills and advanced competencies, BSRs constitute at worst just another cathedral in the desert.

In sum, international comparisons of BSRs need not be an apples-and-oranges exercise. They can be highly instructive provided the indicators used are contextualised and sufficiently comprehensive to capture the idiosyncratic production of different kinds of knowledge across diverse social, political and economic realities.

The knowledge infrastructure and learning in South Africa

If by international experience of BSRs or innovation systems we mean what happens in OECD economies, it is relatively well documented. We know a lot less about the knowledge infrastructure in developing countries. This is not to diminish important contributions in this field, irrespective of whether they are couched in the language of innovation systems, or focus on BSRs, or treat learning only implicitly (see, for example, Amsden 1989 on Korea; Correa 1995 on Latin America; Lall & Pietrobelli 2002 on southern and East Africa; Radosevic 1999 on Eastern Europe; Viotti 2002 on Brazil; Wade 1990 on Taiwan). Yet, on balance, our understanding of the dynamics of innovation in the South, especially in Africa, is only at the beginning. Table 10.2 shows the relative depth of research in this field exemplified through studies of a few latecomer countries. Important African economies fare worse than those in Latin America, Asia or Eastern Europe. While not making any presumptions about the quality of the underlying work, the information clearly suggests a pronounced imbalance between research on mature economies such as the USA, and select economies in the developing and transitional regions of the world.

Table 10.2 Available research on national innovation systems in select latecomer countries

Search engine	Brazil	Hungary	Egypt	India	South Africa	United States
Business Source Premier	10	4	0	16	5	99
EconLit	17	18	1	20	4	55
Proquest	5	2	0	11	5	174
Science Direct	5	2	0	19	1	34
Social Science Citation Index	3	2	0	2	1	5
TOC Premier	3	0	0	3	1	3

Note: The search was limited to publications from 1988, when innovation systems entered the vocabulary. Search parameters were as follows: BSP – 'innovation system' plus 'country' in Abstract (peer-reviewed journals in English); EconLit – 'innovation system' plus 'country' in Text (journal articles, all languages); Proquest – 'national innovation system' plus 'country' in Citation and Abstract (journals and magazines in English); ScienceDirect – 'innovation system' in Text plus 'country' in Abstract, Title, Keyword (journals); SSCI – 'innovation system' plus 'country' in Title, Keyword, Abstract (journals); TOC Premier – 'innovation system' plus 'country' in Default Fields (journals).

There is also an imbalance between the existence of indicators (inspired by the work of the OECD) on S&T, R&D and innovation, on the one hand, and the absence of research to contextualise them, on the other. For example, thanks to the adoption of surveys following OECD methodologies by latecomer countries, we know that business-funded R&D of science and government research in Turkey is twice as high as Hungary's and three times higher than the EU average, and that patents registered in the USA by Czech firms on average cite twice as many scientific articles than the OECD average, and eight times as many as Japanese firms (OECD 2004b: Table A.10). Further, foreign ownership of domestic inventions is around 50 per cent in both Argentina and Romania, but Argentine ownership of foreign inventions is 26 times lower than Romania's (OECD 2003: Table A.12.2). Finally, in 2000 Thailand graduated twice as many students from advanced research programmes as China, and in 2001 Lithuania had twice as many researchers as neighbouring Latvia but only half as many working in industry (OECD 2003: Table A.12.3).

Thanks to efforts undertaken by the South African government to rationalise the national system of innovation and to gain a better understanding of its performance relative to the rest of the world, this type of information is now also increasingly available for South Africa (see Table 10.3 – the left column illustrates 'what we know', while the right column suggests 'what we don't know'). As with the other countries referred to earlier, this information tells us at best which questions to ask, namely why a feature of the system looks the way it does, and what difference it makes. At worst, it leads to pointless comparisons and untenable conclusions. For example, the first South African innovation survey concluded that, because most firms are engaged in 'merely' incremental, as opposed to radical innovation, for which they make use of foreign technology, the country was in essence a technological colony of its European masters (Oerlemans, Pretorius, Buys & Rooks 2003). It also reported that, for innovative firms, universities and research institutes were the least important external partners, and what little co-operation did take place was primarily with foreign institutions. Therefore, 'knowledge resources available in South Africa's knowledge infrastructure do not meet the needs of South African industry' (Oerlemans et al. 2003: 81). While that may be the case, it would take a lot more analysis to justify this conclusion. For a start, 'imitation', far from being a second-rate activity, involves learning about the nature, the uses and the limits of a foreign technology. (If only radical innovation qualified as 'real' innovation, then most firms in most countries all over the world would operate in conditions of technological dependence.) Insofar as imitation is about understanding, it thus harbours the seeds of improvement, which in turn can go all the way to innovation proper. One does not need to go to East Asia to find illustrations for this; examples of technological upgrading also exist in South Africa (see Lorentzen & Barnes 2004). Hence, if the government took the interpretation advanced in the innovation survey at face value and, say, changed the ratio of public funding away from applied research, it might end up throwing out the baby with the bath water.

Although the inflationary use of the term whereby everything under the sun qualifies as innovation is unhelpful, a definition that has withstood the test of time allows for 'processes by which firms master and get into practice product design and manufacturing processes *that are new to them*, if not to the universe and even to the nation' (Nelson

Table 10.3 Indicators of South Africa's knowledge infrastructure and performance, 1999–2001

Select indicators	Conditions of learning
Education	
Population with no formal education – 19% Population with at least a high-school qualification – 3% Functional literacy – 64% Bottom-ranked in TIMSS (8th grade) Lowest average score in numeracy in MLA (4th grade) Students with pass rates in maths and science with university exemption – 5% SET students in HE – 27%	• skills match: supply versus demand • pathways of learners into the world of work
Science and HE system	
Universities – 11 Technikons – 6 Science councils – 8 SETIs and related – 35 Commercial labs and related – 45 Research NGOs – >80 Researchers per 1 000 labour force – 1.88	• nature of research activities • linkages to global knowledge flows and science communities • relationship to industry • 'innovation chasm'? • incentive systems for researchers • budget pressures
Funding	
GERD/GDP – 0.76% Basic research/GDP – 0.19% Industry/R&D – 54% HE/R&D – 25% Government/R&D – 20% Firms that accessed innovation funds – 7%	• efficiency of public funding • effectiveness of public funding • synergies from joint project funding
Technological change	
Sources of product technology: In-house – 57% Local – 24% Foreign – 22% *R&D intensity:* Firms with 0% investment in R&D – 51% Firms with >6% investment in R&D – 7% *(Very) important information sources for firms:* Universities – 13% Research labs – 9% Group – 24% Buyers – 37% Suppliers – 43% Competitors – 50% Principal location of research partners – Europe, SADC TAI (Finland 0.74, Mozambique 0.07) – 0.34	• relationship between productive capacity and technological capability • imitation versus innovation • imitation plus innovation • technology diffusion • role of foreign technology • nature of supply chain • South–South co-operation

Source: NACI & DACST (2002); DST (2004); Kraak (2004: Table 11)
Note: TIMSS = achievement test in mathematics and science, administered by the OECD in some 40 mostly developed countries; MLA = Monitoring Learning Achievement, achievement test in numeracy, literacy and life skills, administered by UNESCO/Unicef; University exemption = high school (matric) score sufficiently high to enrol in tertiary education; SET = science, engineering and technology; HE = higher education (number of HE institutions refers to situation anticipated at the end of ongoing consolidation); GERD = gross expenditure on R&D; SADC = Southern African Development Community; TAI = Technology Achievement Index as computed by UNDP.

& Rosenberg 1993: 4, emphasis added). That this definition was coined for a volume dealing with advanced economies is testimony to the fact that innovation does not always push the technology frontier and that learning happens in relation to, but not only at, the frontier, that it involves not only so-called high-tech sectors, and that developing countries do not require such a watered-down definition as to render the concept meaningless.

Likewise, the apparent mismatch between the country's knowledge resources and the needs of industry does not necessarily suggest that higher education institutions and science institutes are somehow unqualified to fulfil the expectations of firms, or that they are too inept even to understand what these expectations might be. Other explanations are equally plausible. With the liberalisation of the South African economy in the early 1990s, export-oriented firms had no time to waste to upgrade their operations. In many instances, it may have been more feasible to draw on knowledge and other resources invested in global supply chains rather than on those closer to home, simply because the higher education and science sector was not in a position comprehensively to marshal the capital outlays for instrumentation, and so on, demanded in the short run by multinational principals. Hence, this would not be a case of the academy in denial of its role in economic development, generally, and in technological upgrading, in particular, but much more a bread-and-butter issue of objectively more or less available resources. It is important to understand this difference, especially in view of the officially endorsed national strategic objective to emulate South Korea's technological trajectory with its focus on advanced manufacturing and on creating a knowledge base for industrial innovation (NACI & DACST 2002). In turn, there is nothing wrong *per se* with South African firms exploiting foreign sources of knowledge. What would be wrong unequivocally is if they contented themselves with sub-standard knowledge; this, too, is a complex issue in need of further analysis.

In short, for the increasingly widely available indicators on knowledge production to contribute to fruitful comparisons of national innovation systems more generally, and to inform policy, they must be contextualised. In turn, this requires attention to how demand for knowledge, especially by firms, is actually articulated in discrete national and regional contexts.

Future research

Learning takes place when firms identify, absorb and exploit relevant knowledge. The object of learning can be process or product innovations, or also pre-commercial knowledge. Learning is a purposeful act in that it aims at doing things differently – mastering technical change is an example. In this definition 'learning by doing' is merely an improvement of static efficiencies and not strictly a form of learning. Prior knowledge, which depending on industry characteristics may be rather costly to accumulate, facilitates learning. R&D also stimulates learning insofar as it helps in staying abreast of technological changes and deciding on the most relevant knowledge to absorb and adapt. Therefore, R&D is not only – and often not even primarily – about generating new information.

Learning is also a by-product of manufacturing operations. Solving production problems allows firms to identify new information relevant to a product market. Finally, advanced technical training creates skills that make learning easier. Firms that are good learners have a high absorptive capacity, which makes it more likely that they appreciate emerging technological opportunities. Conversely, those with underdeveloped absorptive capacities risk ending up in technological culs-de-sac (Cohen & Levinthal 1989, 1990). Firms must walk a fine line between potential and realised absorptive capacity; a beautiful idea that never makes it to the market is no good (Zahra & George 2002).

The institutional milieu within which firms operate influences the modalities with which they internalise knowledge. Opportunistic suppliers or buyers, mismatched skills sets from the education sector, an indifferent science sector, and a regulatory and trade environment that either errs on the side of too little or too much competition are not conducive to investing in knowledge acquisition. Likewise, structural mismatches between the various constituents of the knowledge infrastructure may bedevil a virtuous interaction. When scientists, engineers, and managers do not speak the same language and when they cannot rely on an institution that helps them to communicate about new information, its operationalisation and eventual marketability, then individually successful instances of learning by any one actor are unlikely to translate into the collective mastery of innovation that drives the technological trajectory of countries.

Unfortunately, there is as yet no generally agreed notion of national absorptive capacity aggregated upwards from firm-level competencies. However, it would be possible systematically to link absorptive capacities of firms with formal and informal skills profiles and with higher-order knowledge production in the tertiary education and science sector. Stage-based models of development that offer conjectures, however tentative, about how a country moves from a lower to a higher level of technological activity by conceptualising the import of both internally generated and foreign knowledge, would provide a useful framework (Narula & Dunning 2000).

BSRs are but one part of national or regional innovation systems. This chapter has argued that the study of BSRs, or indeed any interpretation of S&T and R&D or innovation indicators, must be embedded in more comprehensive assessments of knowledge creation and use in a society. This is especially pertinent in the South African context where relevance 'to the real needs of society' – the *cui bono?* of technological progress – is part of the official definition of innovation. In particular, it needs a micro-foundation of the dynamics of learning that involves the absorptive capacities of all actors and organisations that matter to the system, *inter alia*, in schools, firms, colleges and universities, and other science institutions. If, how, and why they interact, what hinders their communication, and to what extent linkages (including to foreign sources of knowledge) between them produce more or less desirable outcomes, and for whom, must inform the research question.

The creation of internationally comparable indicators is welcome as long as country rankings – the *noledge* of numbers – do not substitute for proper policy analysis and advice. Much more relevant than South Africa's relative position in the global R&D charts is what difference this expenditure makes to the country's hoped-for catching up, at what cost, to whose benefit and with what time horizon. Once these issues become clearer, relating one's own to international practice can become a learning experience from which lessons can be derived for better policy at home and perhaps elsewhere. The consequences of the un-reflected adoption of alleged best global practices may be deleterious. The good news is that there is a strong emerging interest in the functioning of national innovation systems in developing and latecomer countries. Hence, there is a growing body of knowledge to draw on, and research into absorptive capacities is likely to benefit from comparing research designs and results, and perhaps aligning methodologies. It will take some time before our understanding of technological learning in the South catches up with the attendant literature on the North. On the other hand, it took only some two decades to move from initial formulations of the innovation system concept to a broadly accepted and influential body of knowledge concerning advanced economies. If the catch-up logic applies to academic research, the low level of research productivity illustrated in Table 10.2 should translate into higher rates of productivity growth, with a resulting cottage industry of analyses of learning and innovation in developing countries.

What an exciting prospect…

Note

This chapter is an expanded version of Lorentzen (2005). I am grateful to Larry Westphal for insightful and encouraging comments on an earlier draft, to the School of Development Studies for inviting me to a very interesting conference and to Mike Morris for putting together a stimulating panel. As for slips, crass misinterpretations and logical fallacies – *mea culpa*.

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11 The role of government in fostering clusters: the South African automotive sector

Mike Morris, Glen Robbins and Justin Barnes

Introduction

This chapter has a discrete, bounded and limited focus. It is about the role of government in facilitating cluster development in developing country contexts. Therefore, it is concerned with asking a number of interconnected questions around the role of industrial policy and government interventions in creating and facilitating industrial clustering and networking between firms. Within the ambit of industrial policy, it seeks to locate government's role in facilitating clustering in order for the firms to learn through networking how to become more internationally competitive. The chapter attempts to throw light on this issue by focusing on the experience that two of the authors have had in setting up and running a number of clusters in the automotive sector in South Africa, and the third author's work in local government with the brief to accelerate local economic development and foster clustering in selected sectors.

By the 1980s, the dominance of the Washington Consensus had by and large relegated industrial policy to a minor and subsidiary role in the armoury of developing-country policies. The power of markets over the role of state resource allocation has become the dominant orthodoxy – trade-policy liberalisation, deregulation, and dismantling of policy/administrative regimes designed to promote industrial development. Consequently, trade policy has come to dominate industrial policy in the discourse about promoting industrial development. The World Bank's study on industrial policy in East Asia (World Bank 1993) concluded that targeted industrial policies had been a failure, and the only positive role that the governments had played was to promote generic economy-wide incentives, such as education and research and development (R&D), to compensate for market failures. Insofar as industrial policy interventions had been successful, the capacity demands on government were so stringent as to exclude most developing countries from being able to adopt them (Pack 2000). Hence, in an environment poor in state resources such as sub-Saharan Africa, which lacks robust and skilled political and administrative systems, there is extreme scepticism that the East Asian approach could be utilised (Wood 2002).

The last couple of decades have witnessed the emergence of a considerable body of research and academic writing making the case for theorists, government policy-makers, strategy implementers, organised business formations and firms to pay more attention to matters of inter-firm co-operation, networks, devolution of industrial policy and instruments to the local level, regional collaboration and clusters as playing a crucial role in assisting firms to become more internationally competitive (Bessant & Kaplinsky 1995; Bell & Albu 1999; Humphrey & Schmitz 1996; Lawson & Lorenz 1999; Maskell, Eskelinen, Hannibaldson, Malmberg & Vatne 1999; Nadvi 1999; Nadvi & Schmitz 1999; Porter 1990; Schmitz 1999a, 1999b). How does the prevailing orthodoxy square with the discussion around the importance of clusters and learning networks in helping developing country firms co-operate and become more internationally competitive? Clearly, if such co-operative clusters and networks can be created then it requires some form of purposive action. Well, the World Bank accepts the role that clusters and learning networks can play in assisting industrialisation in developing countries, but its answer is very much in line with the generally dominant orthodoxy on industrial policy. As the 1997 *World Development Report* argues:

> High-intensity initiatives should be approached cautiously, or not at all, unless countries have unusually strong institutional capability: strong administrative capability, commitment mechanisms that credibly restrain arbitrary government action, the ability to respond flexibly to surprises, a competitive business environment and a track record of public–private partnership…[instead] light-touch initiatives [those that are inexpensive, and supportive rather than restrictive or command-oriented] offer more flexibility. (World Bank 1997: 75)

In discussing the role of public policy in respect of clusters in developing countries, the World Bank (2004) argues for a redefinition of the role of the government as a facilitator of networking, as a catalyst of dynamic comparative advantage and as an institution builder, creating an efficient incentive structure to remove systemic and market inefficiencies in (national) systems of innovation. However, for the Bank, this redefinition means that the creation of clusters should not be a government-driven effort but should be the result of market-induced and market-led initiatives. Developing countries must strategically shift from policies of direct intervention to ones of indirect inducement (e.g. creating supporting network, dialogue and knowledge exchange structures and schemes). The Bank is quite definite that the role of the government should be very limited. Clusters should not be government-driven. The government should not subsidise firms or sectors in setting up clusters, nor should cluster policy be about limiting market rivalry. Furthermore, it warns that the government should not try to create clusters from 'scratch' in declining markets and industries. The government also should not try to take the direct lead or ownership in cluster initiatives; instead, it should work as a catalyst, a broker bringing actors together, creating forums for dialogue, supplying supporting structures and incentives to facilitate the clustering and innovation process.

What is the position of those who would regard themselves as falling outside this paradigmatic ambit, and who still consider industrial policy and government interventions to bolster it as important levers for developing countries to utilise?

Part of the problem in counteracting this prevailing orthodoxy is that industrial policy is often discussed on very practical terrains. It is often about concrete industrial policies in particular economies, which then takes the form of an empirical assessment of the efficacy of state intervention in particular contexts, and hence whether it is generalisable to other countries and sectors (see Dutt, Kim & Singh 1994). In these cases, discussion takes the form of enumerating and evaluating particular policy or strategy measures: financial incentives, human resources development, investment (including foreign direct investment) incentives, infrastructural investment, public procurement, R&D support and incentives, various firm-level subsidies, export promotion, merger and competition policies, small and medium enterprise support, industrial agglomeration policies, and so on. This runs the danger of becoming a list with no end or beginning, no form of organisational or conceptual classification, and including anything that has a bearing on industrial development. As Chang (1994: 59) who has presented the most comprehensive discussion of the various usages of industrial policy observes, this 'overloads the concept of industrial policy, rendering the concept meaningless'.

Instead, Chang (1994: 59–60) cautions against a wide perspective that comprises a 'catch-all term for all policies affecting industrial performance'; instead, we should 'define industrial policy as a policy aimed at *particular industries* (and firms as their components) to achieve the outcomes that are *perceived by the state* to be *efficient* for *the economy as a whole*' (emphasis in the original).[1] His solution to the problem of ensuring that industrial policy avoids being a 'catch-all term' for every economic policy 'affecting industrial performance' is to restrict it, first and foremost, to policies aimed at particular, designated industries.

Clearly, placing the emphasis on policies or strategies that are aimed at *particular* industries is an important step in avoiding conceptual meaninglessness and the inclusion of all economic measures within the rubric of industrial policy because they impact on industrial development. But what about general policies that support individual firms to upgrade or groups of firms to co-operate (i.e. form clusters or learning networks), which are very clearly aimed at fostering industrial competitiveness but which in their formulation are not sectorally specific? For example, within the framework of an industrial policy, creating government strategic levers (e.g. financial support, incentives and knowledge flows) to assist firms to co-operate, set up clusters for collective action, or simply learning networks. These may well be taken up, more or less enthusiastically and successfully, by any particular industrial sector or may involve firm activities across sectors. Ultimately, the conceptual differentiation that determines whether a policy is an industrial policy must lie in its general aims, objectives and implementing strategies rather than the particularity of the targeted industry/sector.

Wade (1990) provides some basis for starting a conceptual classification of these different kinds of industrial policy. Although his aim is somewhat different and he does not discuss the conceptual issue in great detail, he distinguishes between 'functional or horizontal' industrial policies versus 'selective or industry-specific' policies and says these are differentiated by their respective impact. In our opinion, the most useful systemisation of these different aspects of industrial policy, which allows one to differentiate in a hierarchical manner according to source, aims, objectives and impact, lies in the work of Lall and Teubal (1998). They distinguish between three types of policy, namely:

- ‘functional’ policies, which improve market operations – for example, policies designed to enhance competitive pressures (competitions policy, lowering tariffs);
- ‘horizontal’ policies, which cross sectors – such as generalised incentives to promote greater R&D and training; and
- ‘selective’ policies designed to promote the advance of particular sectors (for example, preferential access to capital or sector-specific subsidies) or particular firms (for example, the promotion of ‘national champions’ such as the Proton auto firm in Malaysia).

Where would we place policies and strategy levers to foster clusters in this schema? Although in their implementation and take-up by firms, they tend more often than not to be sector specific, the general policy formulation and support mechanisms generally fall into the ‘horizontal’ category of industrial policy, which cuts across sectors.

So what do those analysts advocating industrial policy in developing countries have to say about the role of public policy and government levers to facilitate and support clusters, collective action and learning networks in developing countries? Well, there is a lot about the importance of clusters, and even a fair amount about what should be done to maintain them. However, there is much less about how to create them. Surprisingly, given the plethora of literature on the subject of clusters, there seems not an enormous amount that, in identifying various policy measures, specifically targets the role of government, or locates this role within the general ambit of industrial policy, or takes on board the World Bank orthodoxy of a very limited role for government in fostering cluster development.

It is not our intention to provide a long review of this literature. However, we present some of the key alternative positions that set out a clear role for government and public policy in facilitating clusters. In their survey of cluster initiatives in Latin America, Altenburg and Meyer-Stamer (1999) identify the following areas in which government can help the advancement of clusters: promoting an environment for business, stimulating inter-firm co-operation, information and advisory services, training, R&D and technology. In advocating their Triple-C approach, Humphrey and Schmitz (1995) mention a number of policy measures to facilitate and solidify cluster development but, as they say, what government should do about it is less clear. Lall (2004) makes the case for the importance of treating cluster facilitation as a part of industrial policy, and stresses the role of clusters in building absorptive capacity both in firms and in government. Helmsing (2001) makes a case for significant public-policy adjustments and stresses the importance of the state’s role in the process, particularly in its regional and local form. He also makes a case for the development of new government arrangements within the private sector to facilitate learning and networking processes, as well as new governance relationships between the state and the private sector in the form of partnerships geared towards the facilitation of networking and learning activities. Morosini

(2004), in his general, comprehensive review of public policy around clustering, posits a range of roles that public policy-makers, through government interventions, can play in fostering the development of clusters and associated learning activities. These include a role for government in terms of facilitation and resource allocation, general promotion including the accruing of benefits, co-ordinating certain cluster-related activities, and acting as the manager of cluster processes.

The United Nations Industrial Development Organisation (UNIDO) has a comprehensive website (www.unido.org/clusters) with a detailed policy framework for supporting and facilitating cluster development in developing countries. The approach and specification of stages and responsibilities is extremely useful for those involved in building up clusters. The importance of neutral external intermediaries and brokers in building cluster co-operation is a strong thrust of the policy recommendations. However, much of the UNIDO literature is silent on allocating specific responsibilities to external public--sector role-players (such as government, donors, business associations and international agencies) and, especially, on the specific role that developing country governments can or should play in the process.

Our aim here is to use this literature to isolate some key questions on what the role of government should be in fostering clusters, and to apply these to the case studies of clustering in the South African automotive industry. Apart from the clear premises of distance emanating from the World Bank orthodoxy, in general the literature on agency and policy in cluster facilitation tends not to differentiate clearly between the roles played by government versus private-sector facilitators (business development services). It tends not to be specific on the different roles for central versus local government; and with respect to real processes of implementation, it is fairly silent on the necessary institutional arrangements to ensure that public–private partnerships work in practice. Finally, it focuses more often than not on policy prescription and tends to be somewhat short on detailed examination of problems encountered in actual cases of public–private interventions to foster clustering and networking.

Hence, our task is to focus on the following three issues concerning government implementation of policies to foster clustering and co-operative networking activities amongst firms:

- The gap between the policy supportive framework and the institutional arrangements the state puts in place to implement them. How can it be ensured that state cluster-support policy is implemented in a way that facilitates policy objectives rather than obstructs them?
- The relative places and functions of actors in the real process of creating and supporting clusters in public–private-sector partnerships. Is this a twosome or threesome in bed with each other and who does what to whom?
- The appropriate levels of state-led implementation of policies. Is it sensible to centralise the activities of policy formulation, resource allocation, and supporting implementation in the central organs of government? Can we differentiate and specify different places and functions for different activities?

The South African cluster policy context

The industrial policy designed by the Industrial Strategy Project (see Joffe, Kaplan, Kaplinsky & Lewis 1995) and adopted by the new democratic South African regime was founded on a view that '*competitive advantage must also be derived from intra and inter firm cooperation*' (Hirsch & Hannival 1998). In its early democratisation phase (1994–1999), the Department of Trade and Industry (DTI) developed a considerable level of interest in the facilitation of national-level clusters to improve the competitiveness of key sectors aligned with its export-oriented goals. Hence, the DTI saw a role for itself in facilitating intra- and inter-firm processes to ensure that strategic information was exchanged between the stakeholders, as well as to enable greater collaboration at plant level, within supply chains and amongst firms in similar sectors. The case for this was based on work by Porter (1990), Best (1990) and others that highlighted the importance of exogenous factors as being essential to firms' ability to compete, the importance of collaborative inter-firm processes in their ability to succeed on matters such as training, supply-chain co-operation and a variety of other aspects. Hence, in line with similar initiatives in other countries, the DTI embarked on encouraging the formation of nationally driven 'cluster' processes by setting up financial and incentive support via matching-grant funding schemes, such as the Sector Partnership Fund (SPF), the Workplace Challenge, and Competitiveness Fund schemes, which aimed to boost the intra- and inter-firm co-operation that many South African firms lacked.

The DTI began to roll out a series of supply-side support programmes that were seen as less distorting than the demand-side interventions that had prevailed prior to the onset of democracy. In this context, the work of Michael Porter on comparative and competitive advantage and his 'five forces' framework played a significant part in DTI attempts to analyse activities of potential within priority sectors and to identify obstacles to improved performance within value chains at a relatively generic product level. Through sponsoring detailed sectoral analyses, the DTI shared research with industry leaders in what were commonly referred to as 'clusters' in that they brought together select representatives of suppliers, buyers, related and supporting industries, government and at times competitors. This entailed aligning some considerable level of 'kick-start' funding with active support and involvement of DTI staff in cluster processes that commonly aligned themselves closely with national industry associations of the relevant sectors and involved high-level participation of dominant companies. The DTI worked to popularise the concept of clusters through hosting a series of workshops with key sector groups in the main manufacturing regions. These were, in some instances, further supported in the form of funds and facilitation through the DTI's Spatial Development Initiative projects, which allowed nascent cluster processes to take on more of a regional character in some instances. However, while the studies and their related dissemination processes contributed to the development of a shared strategic perspective of various industries in the country, they did not, in most instances, translate into any sustained collective action by the stakeholders concerned.

Despite high-level involvement of dominant industry players and considerable direct attention of policy-makers, the successes of the DTI's direct association with cluster processes were muted, one critical reason being the lack of a clear funding programme backing up the state's promotional hype about the importance of clustering. It was almost as if the government thought it sufficient to simply promote the policy, and then expected industry to implement and fund it. Despite the failure of many of the national processes to sustain themselves beyond initial research phases, and regional processes to develop on more self-sufficient paths, the exercise by the DTI is seen to have had some benefits. It resulted in a substantial escalation of working relationships between firms involved and DTI officials to the benefit of both parties, in that DTI officials had an opportunity to be exposed to industry knowledge and insights to inform their policy choices, and industry players gained an improved understanding of the DTI and its programmes and policies.[2] However, this was nullified by the inability of the DTI to retain its sector-specific staff and the constant process of departmental reorganisation, which resulted in those remaining being shifted to other positions or departments.

The launching of the SPF (a DTI/firm matching-grant funding scheme on a 65%/35% basis to assist five or more firms to co-operate jointly on a project) in the second half of the 1990s created an opportunity for sector stakeholders to build a collective agenda around matters of competitiveness. However, the bulk of applications through the scheme resulted in one-off projects rather than sustained networking (e.g. stainless steel and jewellery clusters), or where networking was sustained it did not extend beyond single-issue processes (e.g. the Port Elizabeth Auto Cluster with its focus on logistics). The creation, by the DTI, of a dedicated team to promote cluster initiatives yielded little more than further analytical studies and workshops. Participants in these processes from industry often complained of a DTI obsession with setting cluster agendas and of failing to recognise the importance of building trust and shared governance of processes. An example of this can be seen in processes that sought to establish a cluster-type partnership between key industrial chemical stakeholders in the Durban region, where the government's overriding interest was in collective action to boost investment and exports, while industry participants were calling for the process to focus on resolving environmental management issues as a priority.

Participants in these cluster processes, which had their origin in national processes, identified the following as core weaknesses:[3]

- DTI's attempts to impose an agenda on firms;
- lack of relationship (trust) building process;
- lack of evidence of 'quick wins';
- a cluster model founded on national priorities as opposed to localised common concerns between firms, leaving firms disconnected from the agenda;
- a government-driven governance model without the creation of real partnerships; and
- lack of credibility/knowledge of DTI facilitators.

The result of this less than spectacular engagement with cluster processes was that the DTI took less of a direct interest in what were conventionally framed as cluster processes or inter-firm networks. This decision was perhaps contributed to by the loss of skilled staff, who had acquired detailed sector knowledge and built relationships with some industry role-players. The DTI seemed to have drawn the wrong conclusion from the failure of its short-lived policy emphasis on clustering – namely, that the fault lay with clustering *per se* – rather than reflecting on the role of its own mistakes in the way it formulated the cluster programme. In marked contrast to the Taiwanese experience (see Lall 2004), the DTI focused on promotional tours, provided no implementation plans and no funding. However, this loss of interest in such processes by the DTI did not prevent other role-players from continuing to seek opportunities in inter-firm co-operation.

At the turn of the millennium, the DTI underwent a sustained period of restructuring aimed at allowing it to finally shed the institutional baggage of apartheid-era industrial policies. The DTI also shifted away from cluster processes, which were often viewed as excessively resource intensive and as yielding less tangible results than more direct interventions on an individual basis with leading sector players. While the latest policy offerings re-emphasise the thrust towards clusters, it remains a concept founded on strategic national processes with key role-players in day-to-day implementation terms.

A further complication, and one that has in all probability hindered significant advances on industrial policy content and innovation in South Africa from its early post-apartheid formulations, has been the highly centralised approach of the DTI, which has resulted in very little meaningful interaction with other spheres of government and even less 'grassroots' interaction with firms in their specific locations. The resultant impact has been little intergovernmental co-ordination and a policy orientation with a strong top-down delivery bias.

Within this context, it is noteworthy that very little direct interest has been shown by the DTI in processes relating to decentralisation, both for its own benefit (in terms of improving its intelligence base) and in terms of benefits to customers. It has also not really engaged with the notions of how important localised processes and various networks can be to local, regional and even national economic development. In this regard, its programmes and activities can still be characterised as highly centralised, macro-level and generally not informed by the dynamics of space and place, and offering little in terms of support to networking and clustering activities on a discrete regional basis.

The experience of the auto benchmarking clubs

During the mid-1990s, the South African automotive sector was in the midst of a substantial crisis. The Uruguay Round-related reduction of tariff protection, behind the protection of which a domestic industry had prospered, was a major contributor to this crisis in which the volume of imported vehicles and components increased while performance and productivity gaps in assemblers and component producers made successful entry into global markets as exporters a difficult, if not impossible, exercise. However, the development by the DTI of a sector-specific restructuring support programme, in the form of the Motor Industry Development Programme (MIDP), soon began to encourage significant assembler production-for-export commitments in some of the major firms. While the structuring of the MIDP favoured the assemblers, the programme contributed significantly to an output turnaround and, hence, created a window of opportunity for component suppliers in their value chains to realign themselves with new opportunities (Barnes, Kaplinsky & Morris 2004).

In the mid-1990s, research by academics at the University of Natal on the international competitiveness of local component suppliers' performance, fed back in a number of workshops, shocked the industry and spurred the formation of a nascent partnership between the researchers and some firms. Under pressure from the firms to assist them, the researchers, acting as external intermediaries, formed a separate business development services company (Benchmarking and Manufacturing Analysts), and played the role of cluster facilitators. In order to set up the cluster, the SPF was used to leverage matching finance from the government (65 per cent) and the member auto firms (35 per cent). Consequently, the KwaZulu-Natal (KZN) Auto Benchmarking Club became operational in January 1998 after struggling for seven months to break through government red tape surrounding accessing financial support. This regionally-based continuous improvement cluster was designed to help firms learn how to upgrade their operational performance in order to approach the international competitiveness frontier. By the end of the decade, based on its operational success, two other sister clusters were formed in the Eastern Cape and Gauteng (Barnes & Morris 1999; Morris & Barnes 2004).

These clubs have proved to be highly successful continuous improvement clusters, judged on a number of criteria: increased *knowledge sharing*, as firms shared their experiences through workshops and *firm visits*; *learning*, as the newsletters diffused to other layers of management within firms; significant improvement in *operational performance*; increasing *membership growth*; and financial *self-sufficiency* as government withdrew its financial support.

The clubs are primarily based on firms wanting to ensure continuous improvement and operational performance enhancement in order to make themselves more internationally competitive. The driving force underlying knowledge sharing and upgrading of the learning network is the process of benchmarking the operational performance of member firms against other club members as well as against international comparators. Therefore, the best quantitative indicator is the impact they have had on the competitiveness of the cluster members as measured by improvements in the operational performance of member firms. Although a wealth of information is available and is shared with firms on a regular basis, only the overall summary of progress in process-upgrading of club member firms, both in relation to their own improvements and relative to an international sample of benchmarked firms, is presented here (see Table 11.1).

Table 11.1 Learning and operational performance change of firms in clusters

Critical success factors	Key performance indicators	South African firms 1998/99	2001	Improvement 1998/99–2001	Comparator firms Western Europe	Emerging economies
Cost control	Total inventory (days)	62.6	42.0	32.8%	31.2	38.6
	Raw material (days)	32.3	21.8	32.7%	17.2	19.2
	Work in progress (days)	12.4	8.2	34.3%	5.3	8.6
	Finished goods (days)	17.8	12.1	32.0%	8.6	9.5
Quality	Customer return rate (ppm)	3 270	1 240	62.0%	549	624
	Internal reject rate (%)	4.9	3.9	20.7%	1.9	3.5
	Supplier return rate (ppm)	21 989	18 518	16.0%	8 319	13 213
Flexibility	Lead time (days)	19.9	17.9	9.9%	16.8	12.0
	Supplier on time (%)	78.7	82.2	4.5%	92.2	92.3
	On time delivery to customers (%)	92.2	92.7	0.6%	96.1	93.5
Capacity to change	Training spend % of total remuneration	1.3	2.0	56.2%	1.3	3.1
	Absenteeism (%)	4.4	4.0	9.4%	4.2	5.7

Source: Benchmarking and Manufacturing Analysts (www.bmanalysts.com)
Note: ppm = part per million

We have additional data up to 2004, but the point we are making is to illustrate the dynamic progress made by these firms in the initial period of the cluster. In the first three years, substantial progress was made towards international competitiveness. This was clearly in line with the government industrial auto policy. However, the fact that this was not recognised by the DTI is indicative of the problem of a lack of alignment between its policy goals, strategies and these clustering activities taking place outside its immediate ambit.

It is clear that the impact of these clubs on operational performance has been significant, even if the South African components sector has some way to go to reach the global frontier. With the exception of delivery reliability to customers, progress for all of the measures in South Africa has been significant. Generally speaking, the South African component firm performance increase is better where internal factors (work-in-progress control, training, absenteeism) are involved than where they are dependent on external factors (raw material inventories, supplier performance). From a value-chain perspective, this suggests that the growth of learning is still predominantly in the first-tier components suppliers and has not yet diffused widely up the value chain. Some of inventory control weakness is due to logistical problems along the value chain, especially with regard to incoming materials (minimum-size import quantities, problems at the ports) and distance to the export market (for stocks of finished goods). In general, there are clear indications that significant process upgrading has occurred and the firms are becoming more internationally competitive. Clearly, external factors have also contributed, but the members argue that the co-operation, knowledge sharing and learning embedded in the operations of the clubs have played a major and critical role in the process.

From the perspective of our focus here, the key question to answer is how we assess the government's institutional levers in assisting the process. On the positive side, it is clear that without the existence of a sympathetic industrial policy incorporating, and the ability of the service providers to access, financial support for clustering – i.e. the SPF – this network would never have seen the light of day. However, the inability of the government to come to grips with putting in place the appropriate institutional arrangements to create a truly enabling institutional environment also nearly killed the cluster.

One of the most striking problems experienced in terms of the establishment and initial functioning of the club was the institutional difficulties associated with the supply-side support received from the national government. The economy may have radically broken with import-substituting industrialisation, and new personnel may have been engaged in the DTI, but the department's administrative structure of doing business remained intact. While new policies were put in place, there was insufficient reconceptualisation of the deployment implications of these new policies and, hence, reconfiguring of the institutional arrangements to ensure that implementation followed the policy shift. As such, the supply-side support measures that replaced the previous protective regime were immersed in bureaucratic red tape, to the extent that it was very difficult for firms to access them. The long lead times associated with the department's previous demand-side operations – basically lobbying for administrative decisions regarding tariff protection or requesting various licensing permits – were no longer adequate in the face of the international competitiveness demands being placed on the firms relying on some level of government support. In addition, the knowledge implications of its shift in policy also required retraining of government staff, shifting their centre of gravity from 'paper pushers' to 'agents of change' fully attuned to the competitiveness demands being placed on South African firms.

Therefore, while it was very easy obtaining formal government support for the club, given its new policy reorientation and industrial development agenda, it was extremely difficult to obtain the practical supply-side support required for the establishment of the club. This is borne out by the fact that the club was launched seven months later than originally envisaged and that it took nearly five months from the club's launch to receive the first disbursement of government money. Moreover, as time progressed, the clubs discovered that the provision of a 65 per cent subsidy proved a double-edged sword, for the DTI invariably took between three to six months to reimburse them (and, in turn, the service providers) for expenditures incurred. Consequently, the service providers facilitating club activities constantly experienced cash-flow crises. Very lengthy procedures created considerable periods of uncertainty, and payment delays threatened to derail activities and result in loss of confidence by participants. Furthermore, the fact that business services companies, such as B & M Analysts, had to pay VAT on invoice (not in and of itself a problem created by the DTI) and not on receipt of government funds (which came on average three months later) placed further pressures on the viability of the clusters, absorbing excessive amounts of time in seeking to generate resource certainty. When, in 2003, the DTI suddenly reneged on promises to provide more secure three-year funding outside of the SPF bureaucratic nightmare, the clubs were faced with collapse. In 2004, the clusters abandoned seeking any national DTI support and became completely self-financing from member-firm payments. This was not without its problems but it did finally seem to allow them to solve the continuous, recurring cash-flow crises engendered by the government.

However, as if in order to drive the bureaucratic bungling point home, the DTI's cumbersome rules and procedures made it as difficult to end state support as it was to maintain it. The rules required auditing as the final step, but no funds were allocated in the initial budgets for this process. The DTI informed the clubs in writing that it would cover the full SPF closure auditing costs. Despite this assurance, when the invoices were sent to the DTI they claimed that their known rules only allowed them to pay 65 per cent of costs. Thus, notwithstanding the fact that they took four months to decide this and the clubs/service providers incurred an additional 20 per cent interest charges for late payment, the DTI induced a further cash-flow crisis by reneging on a further 35 per cent of the auditing costs to wind down their very own SPF mechanism.

The experience of the Durban Auto Cluster

In 2001, a significant development occurred when the Durban Metropolitan Council's Economic Development Department took a high-level interest in the potential to widen the scope of the KZN Benchmarking Club into a broader cluster taking on a greater variety of automotive problems in the region. Municipal seed funding was provided, which resulted in the launch of the Durban Auto Cluster (DAC) in January 2002 based on four foci – supplier development, logistics, human resources development and operational performance.

Early collective gains, such as more favourable freight rates and shared training infrastructure and programmes, soon encouraged firms to extend the scope of work of the DAC by contributing increasing levels of funding. Since its formal establishment, the cluster has grown to incorporate in excess of 35 firms, and sources the bulk of its funding from firm contributions and local state authority (the metropolitan government), with minor contributions having come from the provincial government and very much smaller amounts from the DTI. It has developed an array of programmes ranging from highly technical, specialised training interventions that might benefit a handful of firms to more generic initiatives such as programmes to support new entrants into the sector, especially emerging black-owned firms. It is widely viewed as an example of a highly effective cluster (Bessant, Kaplinsky & Morris 2003).

It is also important to note that the DAC processes were not undertaken under the banner of any industry association. Earlier Benchmarking Club processes had revealed that industry associations were very much caught up in lobbying exercises and issues relating to national collective bargaining processes. They had traditionally kept their noses out of the firms' internal operational matters, with the exception of industrial relations issues and wage-setting processes. By and large, the industry associations, in their regional form, supported the cluster activities, and it was made clear that their role was in no way being directly threatened. No direct endorsement was sought from the associations, as the cluster focused on inclusiveness as a key principle to avoid being directly associated with any one industry body.

This sensitivity about the nature and form of association was also extended to the involvement of original equipment manufacturers (OEMs), in particular Toyota South Africa, in the processes. Compared to other cluster initiatives in the auto sector in the country, the emphasis in the DAC was on the interests of the layers of suppliers to the OEMs. While Toyota's express support for the efforts of the DAC were sought at the start, it was agreed by all that Toyota would be an active participant, but not exercise any dominant responsibilities in the process. This enabled suppliers to feel comfortable working together on strategies to ensure that they could embark on improving their negotiating position in relation to the automotive value chain so dominated by the OEMs. It also enabled Toyota to continue to pursue its own corporate strategies without any sense of threat to its commercial imperatives.

The governance structure of the cluster involves the firms electing an executive, which is supplemented by local, provincial and (nominally) national government representatives. This executive guides the work of the facilitators and allocates resources according to the needs of the firm-driven working groups that are associated with each programme area of the cluster.

For some time, the DTI has offered inconsistent support and shown erratic interest in the workings of the DAC. This has translated into the DTI representatives rarely participating in the Durban-based activities of the cluster and DTI funding making up the smallest portion of public-sector contributions to the DAC since its establishment. This 'distance' of DTI staff responsible for sector activities (including the DAC), aggravated by substantial turnover of DTI staff and associated loss of experience, has been felt in a number of ways by the DAC participants and business service facilitators. Responses to applications for funds have not been dealt with timeously, and have often been misunderstood, as those dealing with the applications have little direct experience of the cluster or its participants. Requests for more direct involvement in cluster processes have often been met with a perspective that the DTI has a responsibility to maintain some distance from regional processes and direct its attention to strategic national activities. These perspectives remain common today, despite the fact that the cluster is arguably one of the most successful cluster projects the government has had, in terms of the number of firms involved, the level of partnership funding committed by firms and the diversity of active programmes.

In similar fashion to the experience of the auto clubs, and stemming from the same base problem, this 'distance' was complicated by the DTI's internal procedures relating to funding of such initiatives, which had to meet criteria too precise to allow for the flexibility necessary in facilitating such firm-based processes. Despite numerous promises, the DAC never received a cent of earmarked funds from the DTI. Due to the constant nagging of the Metro official responsible for initiating the cluster, and sympathetic senior officials in the DTI, the Metro was able to draw down R250 000 from the DTI, which was originally earmarked for corridor development purposes.

Notwithstanding their irregular participation, when the DTI's national auto sector representatives did arrive at meetings they often expressed considerable surprise at the scale and scope of the DAC activities, and repeatedly made the point that the experience could offer valuable pointers to evolving DTI perspectives on policy and associated implementation. The existence of the DAC reinforced the credibility and authority of the DAC facilitators in their engagement with national policy processes, but once again this did not yield any more substantial direct DTI engagement with the local processes.

The DAC's relationship with its provincial government funder (the KZN Department for Economic Development and Tourism) has exhibited similar inflexibility. This was also beset by delays and uncertainty with respect to funding and support. Furthermore, the provincial department, in return for funding, was wont to issue policy directives that required the DAC to focus attention of matters it did not initially see as its core business, in the form of issues that had more to do with emerging policy framework than the immediate needs of firms. For instance, the KZN Department for Economic Development and Tourism was keen to financially support only programmes directed at ensuring more active involvement of black economic empowerment concerns and black-owned businesses, but simultaneously struggled with the time frames the DAC suggested would be required to ensure that such enterprises, which were marginal to the rapidly globalising auto sector, could meaningfully be included in the automotive value chain. It was a continuous struggle (and remains so today) to get the government above the local level to agree to provide some sort of subsidy to the running costs of the cluster and to its core business of competitiveness support programmes, despite very obvious signs of early gains and signs of willingness by the DAC participants to engage with new policy directions.

The relationship with the local Metro-level government tier stands in marked contrast to that of central government and the provincial authority. The local Metro government, as a result of being deeply embedded in the problems Durban was having in regenerating its industrial base, was acutely aware of the importance of the local automotive industry and had been having discussions with Toyota SA, which was situated in its municipal boundaries, about how to sustain the future of the sector. It was also very aware, as a result of numerous interactions, of the sustainability of the KZN Benchmarking Club. This institutional intimacy meant that the Metro was able to play a proactive role in suggesting and providing seed funds for a feasibility, pilot set-up phase for the DAC. Moreover, after the pilot set-up phase, the local authority has provided the bulk of public funding to ensure that the cluster remains sustainable. It is instructive that since the Metro government has become almost the sole source of public funding (as opposed to firm members' dues) for the DAC, the incessant cash-flow problems experienced through accessing national government funds have ceased. The relationship between the DAC, the local business development services facilitators and the Metro representative on the executive goes beyond simply being regular participants on the executive committee. The Metro is embedded in the DAC, and this is apparent from the continuous presence of its representatives at the quarterly report-back sessions, as well as the number of times these have been opened by prominent Metro representatives (e.g. the deputy mayor and the Metro CEO). The service providers meet fairly regularly with the Metro division head responsible for funding the DAC to discuss a variety of relevant issues, and consequently, apart from formal evaluations, an informal monitoring process is embedded in this working relationship.

Conclusion

So what do we learn from the experience of setting up and running these competitiveness learning networks and clusters? Let us first focus on the three issues we set up at the outset. These were:

- translating policy into the institutional arrangements in government to ensure implementation;
- clarifying the terms of the pubic–private relationship between government, firms and business development services; and
- isolating the appropriate levels of government for locating different intervention levers.

Institutional arrangements for implementation

The immediate lesson that is clearly apparent from this experience is that there has been no correspondence between the cluster policy framework set out by the government and the institutional arrangements put in place to ensure that the strategic goals contained therein are implementable. While it is indisputable that without the ability to access supportive finances made available through the industrial policy framework, these clusters would never have got off the ground, it does however also seem clear that the clusters have succeeded in spite of, rather than because of, the manner in which these resources have been institutionally distributed. There are a number of reasons for this implementation failure, as well as policy lessons that flow from them.

Firstly, the DTI did not take seriously the need to reconfigure its institutional arrangements to create a flexible delivery mechanism. Instead, it wrapped the process up in bureaucracy and time-consuming, unnecessary activities. This is ironic given the first lesson of lean manufacturing that it was preaching to the firms – reconfigure your internal manufacturing operations to ensure flexibility and quick response time! The lesson in this is crystal clear – practise what you preach.

Secondly, the DTI, as the government department responsible, lacked the human capacity skills required and, rather than investing in sector-specific training and building up a stable, experienced civil service steeped in an understanding of sector/firm issues and able to react to them, the upper echelons spent the past few years continuously restructuring and reorganising departments and staff, repetitively dissolving sector-specific directorates and then reconstituting them, and so on. The result was that any specific industrial and sector training invested in the sector directorates was wasted, and the DTI bled demoralised staff at an alarming rate. Consequently, industrial policy requires more than simply formulating capacity; it also requires trained, and continuously learning, sector-based government staff with an embedded knowledge of their sector's dynamics. It also involves having such staff who are passionately committed to the development of those sectors they are responsible for and who make this obvious to industry in a manner that fires the latter's confidence in government alignment with industry goals.

Thirdly, the DTI was unable to build internal institutional arrangements tying the horizontal policy agenda into the selective sectoral policy framework. In other words, the auto cluster initiatives were institutionally dislocated (in funding, accountability and report-back relationships) from the general operations and thrust of the MIDP. There was no structural linkage between these two levels of industrial policy, and it all depended in the end on the personal initiative of the senior members of the sector division of the DTI. Notwithstanding a short period when the personal attempts of the deputy director general in charge of sector policy managed to bridge this gap and it seemed that the cluster process would be permanently built into the DTI's auto sector policy framework, it all came to naught; indeed, the structural linkages disintegrated and the DTI lost any relation to the clusters when he resigned. Where horizontal industrial policy measures have led to sector-based clustering, these should be integrated with any sector-selective industrial policy framework in existence.

Finally, the failure of the DTI to set in place appropriate institutional arrangements, and the ability of the local Metro to do so, points to location issues. The central government was simply too far away, too distant from the real firm-based co-operative activities of these clusters. It was unable to be institutionally embedded in their needs, problems, requirements and cluster activities. It was unable to monitor and appreciate their successes, and to track the trajectory of the cluster member firms' movement towards international competitiveness. In short, it lacked what we call the necessary institutional intimacy to set up appropriate institutional arrangements of implementation. Delivery agencies do not have to be located at the same government level as resource allocating tiers. The DAC experience provides a valuable lesson in this respect. DTI national funds were accessed by the Metro and used for kick-starting the DAC process. This illustrates the importance of locating a resource-allocation mechanism at central level but allowing its drawdown and implementation interventions to occur at lower government levels. Unfortunately, since this was purely accidental and ad hoc, it also illustrates the weaknesses and policy irrelevance of the process.

Public–private partnerships and business development services

The experience of these auto clusters raises an important issue concerning government support for, and the place of, business development services (BDS) within the private sector. It is clear that industrial policy has been designed for a new competitive and co-operative manufacturing economy, but has it been designed to create a holistically enabling environment? Certainly, on the financial side of resource allocation, earmarked funds have been set aside by central government to support and assist firms with various matching grant schemes. The buzzwords are 'public–private-sector partnerships', but are the only parties that need to be brought to the table the government and manufacturing enterprises? In other words, is this a partnership between two or three parties? What about the BDS firms, the industrial restructuring consulting companies and the industry cluster facilitators, all of whom are supposed to provide the actual support for industrial restructuring, cluster facilitation and network learning to ensure that firms either individually or collectively make the transition towards the frontier of international competitiveness? They are part of the private sector, but they form a distinctively separate group from the manufacturing enterprises who are the real targets of industrial and cluster policy. Their task is to do the work of assisting manufacturing enterprises to upgrade, co-operate and become more competitive. In that sense, they are the conduits of such policy, creating the link between the state and the private manufacturing sector. They are the third arm of the triangle, linking the state's enabling environment and supportive financial structure and the manufacturing enterprises. Where do they fit into the conception of public–private partnerships and cluster industrial policy?

In this respect, the real problem, and lesson from the experience of the auto clusters, is that the DTI has not tried to close the magic triangle and build a relationship between itself setting an enabling framework and making financial support measures available, the enterprises receiving financial support and requiring practical value-added services and knowledge assistance, and the BDS sector providing the range of facilitating and practical value-added restructuring services. By suggesting that somehow the government will provide the necessary 'value-added services', the new DTI policy has allowed a central question concerning the enabling environment to slip away: how does industrial policy build an effective business services sector to assist enterprises in building this new manufacturing economy? Supporting the private sector and creating public–private partnerships requires the government to recognise, support and reward the important role of the business services sector in delivering the sorts of direct interventions to raise the competitiveness levels of industry that government requires but is actually incapable of providing.

The appropriate levels of government intervention

It is clear that the initiative for these cluster processes is often one that emerges from local processes and is rarely successfully the product of national cluster interventions. The reason for this revolves around the need for any interventionist bodies to be institutionally embedded and to have a degree of institutional intimacy with local firms, facilitators and supporting organisations. However, a lack of co-ordination and interaction between spheres of government weakens both the policy content and the implementation effectiveness of government interventions. From a national policy perspective, the development of policy should ideally be informed by the varying conditions in the different regions/localities and by regular and direct interactions with the supposed beneficiaries of such interventions, namely the BDS facilitators and the firms themselves. Consequently, the failure to participate in local cluster processes reduces the exposure of responsible officials to firms and their issues and undermines the potential of the government benefiting from learning networks of firms.

The corollary of this need for institutional embeddedness and intimacy with the local stakeholders, facilitators and firms is that it is usually better to have government institutions that operate at a lower level than the national structures involved in creating or maintaining clusters. Whether this should be provincial or local government depends on the resource capabilities of the various institutional levels. In large urban areas, it is usually the metropolitan government that has existing capacity, is more attuned to the local-sector situation, and has the greatest incentive to ensure that local economic development initiatives get off the ground. In more rural areas and country towns, the local municipalities are nothing more than services collection agencies and the provincial government has a major role to play in assisting firms to join up into learning networks. Alternatively, where a cluster draws its members from a broader geographical base than the large urban centre, it makes the most logical, but not necessarily practical, sense for the provincial tier of government to play the interventionist role. However, this is not always possible, because (as is apparent in the case of the DAC, which draws members from all over KwaZulu-Natal province) the provincial authorities may simply lack the capacity, interest or knowledge base to perform this function.

A lack of a policy delivery presence at a local level results in a substantial disconnection between national policy and the effectiveness of its implementation. Distant and unresponsive bureaucratic structures do little to enhance the building of relations essential to the uptake of programmes deemed priorities at a national level. Barriers of space and consequent reductions in levels of contact between firms and government officials do little to enhance the trust and mutual learning that is seen to be an essential ingredient in successful networking and clustering processes.

The tendency for national government to concentrate competitiveness resources in its own hands and then set up bureaucratically obstructive accessing mechanisms has a major debilitating impact on firms and cluster facilitators' ability to gain from networking arrangements. Likewise, the hierarchical relationship between provincial and local government can have the same effect. This is especially the case where metropolitan or city governments are better placed (i.e. institutionally embedded and able to express the necessary institutional intimacy) to make appropriate decisions regarding firms and the capabilities of local service providers/facilitators. The other side of the coin is that poor levels of interaction between national and provincial and local government spheres reduce the potential for the sharing of insights and strategies that, in turn, can allow for improved allocations of state resources and more informed interventions.

The government has to understand the difference between policy formulation, policy design, policy promotion and policy implementation. Policy formulation is usually undertaken by externally-based researchers/consultants on commission from and in co-operation with central DTI functionaries, which results in the formulation of a set of policy principles and guidelines that are adopted with suitable modification by the government. Policy design requires translating this into a legal framework, which then becomes the codified policy of the government – a process that is undertaken by central bureaucrats and legislative experts. Policy promotion is the dissemination of the policy to all interested stakeholders inviting them to participate. It can be delivered by the national government but, given the greater institutional intimacy of lower levels, it is usually better placed in a centrally-located information clearing house funded and controlled by provincial government. Policy implementation is ensuring that the bureaucratic processes are in place to easily deliver on the various policy promises and ensure that the policy objectives are met. This requires the government department(s) to reorganise internal institutional arrangements, train staff, change civil servant mindsets, speed up processes and so on, in order to ensure that the policies can be easily accessed, the various activities (whether they be funding or reporting or concrete interventions) delivered to the relevant parties in the correct time frames, and the results monitored and evaluated.

Unfortunately, most policy processes stop at policy promotion, government bureaucrats assuming that dissemination equals implementation, and the crucial issue of ensuring that the necessary institutional arrangements have been put in place to implement the objectives is ignored. The experience of the DAC and the principles of institutional intimacy/embeddedness suggest that these institutional arrangements and interventionist foci are best located within specialised government agencies/departments at the provincial or Metro level. A consequence of doing this is that the increased interaction with actors and institutions in the region and locality results in the building of knowledge and capacity within the regional system of innovation.

These experiences and lessons concerning locating appropriate levels of policy and strategy intervention levers at different government tiers are summed up in Figure 11.1.[4]

In conclusion, what do these case studies tell us about the debate regarding evaluating industrial policy and the role of the government in fostering clusters? Do they say anything of substance about whether the prevailing orthodoxy of leaving everything to the market is correct or whether the proponents of industrial policy interventions are right? That is still pretty much an open question. In fact, a case could be made that these experiences tell us that while it is often clear when the state is obstructing network formation and clustering, it is less clear what the state should be doing to create an environment in which such processes can flourish. Hence, there is a tendency to argue that the less the government does to intervene and participate in such processes the more likely they are

Figure 11.1 An industrial policy and cluster strategy levers framework

GOVERNANCE POLICY AND LEVERS

GLOBAL	WTO, MFA, AGOA, EU agreements; internationally agreed certification standards (ISO, labour, fair trade, eco-labelling); value chain technical operating performance protocols		
NATIONAL	• Horizontal support policy (e.g. Competitiveness Fund) • R&D/Innovation support policy • Resource allocation for BDS support	• Sectoral stakeholder alignment re goals/strategies • Supply-side policy (e.g. SPF) • R&D/Innovation support • Information on global, national sector issues for value chains/clusters/sectors • Horizontal resources allocation to other government levels for cluster programmes	• Enabling framework • Selective sectoral policy • Review of industrial policies • Data collection • Policy performance review • Evaluate/compare industrial policies internationally • Analyse global sectoral trends
PROVINCIAL	• Export information • Conduit – horizontal firm support measures (e.g. funding, monitoring) • Service provider directory • Information hub • Assist firm competitiveness • Build BDS sector	• Market information on global buyers • Sector trade intelligence • Information hub to assist supply chain operational performance • Cluster/learning network support • Conduit for horizontal support measures (e.g. funding, monitoring)	• Lobbying • Institutional participation in national sector councils • Conduct socio-economic impact studies
LOCAL	• Optimise infrastructure • Logistics costs/assistance • Data collection/analysis • Skills development	• Cluster/learning network support • Conduit for horizontal support measures (e.g. funding, monitoring) • Disseminate sector/trade information • Alignment to province strategies	• Lobby provincial government • Institutional participation in sectoral councils
	MICRO LEVEL Intra-firm	MESO LEVEL Inter-firm (value chain/cluster)	MACRO National

COMPETITIVENESS LEVELS

to thrive. This is ironic, given that many of those shying away from a more active role for the government started off as passionate protagonists of centralised industrial intervention and have been driven by bitter experience of bureaucratic bungling into a decided reluctance to embrace a more central and direct role for the government.

However, as is apparent from the experience of fostering clusters in the UK, where the central state created, with some considerable success, a number of regional development authorities with the precise aim of ensuring institutional intimacy and embeddedness, the issue may be more one of disaggregating the different levels of possible government intervention, and differentiating between direct and indirect enabling and resource-allocating roles, than a blanket embracement or rejection of a role for the government. It may also well be more a matter of the government finding new ways of working with firms and BDS companies and other public and private partners, at appropriately different levels of government, to enable it to be relevant in a positive manner to such processes. It may be that involvement in such processes is less about state-led policies being jammed down the throats of facilitators and manufacturing enterprises and more about different government levels engaging in their own learning and response cycles in such processes. Finally, it may be that a core element of becoming relevant in this framework of operation requires the state to embrace processes of decentralisation of its industrial policy activities where appropriate, as it is often at the local level that the state needs to find a place for itself in cluster and networking processes.

Hence, what the South African auto cluster experience really shows is that clusters can work and deliver on substantial competitiveness improvements for industry in a relatively short period of time. It also shows the importance of creating genuine public–private partnerships, but also the need for the government to differentiate between industrial firms and BDS companies and to provide targeted and specialised support mechanisms for each. The experience demonstrates a clear supporting role for the national government – providing an enabling environment, especially a resource-allocation framework. It is also, in our opinion, the only way for the government (at all levels) to learn and build absorptive capacity within its own ranks.[5] Unfortunately, the practical experience of the auto clusters reveals that this has been neither understood nor acknowledged by the principal government department that could play a leading role, the DTI. Hence, it seems to have fallen on the side of the prevailing ideological orthodoxy of limited industrial policy intervention. The failure to effectively implement clustering as part and parcel of industrial policy has been perceived as the failure of industrial policy *per se*. The thrust of our analysis, however, has been to use the experience of the auto clusters to argue the case for an integrated industrial policy consisting of the alignment of functional, horizontal interventions with selective sector policy in support of cluster development.

Notes

1 See, also, Chang (1998, 2002). In his extensive discussions of industrial policy, he surprisingly makes no reference to the role of clusters as a form of sector-specific intervention.

2 The DTI has done little in terms of documenting its policy intent and activities, evaluating performance and measuring how its policy initiatives match up to international experience. One is, therefore, left to the documentation produced by those who have worked for and with the DTI in the past decade or so (Hirsch & Hannival 1998; Kaplinsky & Morris 1997; Kaplan 2003).

3 Personal interviews and feedback to Glen Robbins who was at the time working in the Durban Metro responsible for initiating these processes.

4 This Figure is a symbolic representation of various levels and levers that could be utilised. Many things could be added and subtracted depending on its intended utilisation in actual situations.

5 As Lall (2004) points out, it was this interactive process between state and the private sector that allowed the governments of Korea and Taiwan to build an effective and knowledgeable cadre of state bureaucrats.

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Section 5
Municipal governance and development

12 Local economic development in post-apartheid South Africa: a ten-year research review

Christian M Rogerson

Introduction

Under the combined impetus of structural adjustment programmes seeking to reform the public sector, of market liberalisation and of globalisation processes, issues of local economic development (LED) planning have acquired great significance as a wave of decentralisation swept across the South (Rogerson 1995a; Helmsing 2001a, 2001b, 2003). Another trigger for LED initiatives stems from the limited governance and delivery capacity at national level in many developing countries, which prompts local actors to get involved in development activities as the problems of poverty and unemployment are felt most acutely at the local level (Meyer-Stamer 2003a). The growth of LED in the South cannot be separated from its new-found status as 'one of the highly fashionable issues of international development cooperation' (Meyer-Stamer 2004a: 1).

Within Africa, the greatest progress in decentralisation is recorded in post-apartheid South Africa (Ndegwa 2002) and, significantly, the country now is emerging as a pioneer in terms of LED planning on the African continent (Nel & Rogerson 2005). Several features of the South African LED experience already have been 'exported' to surrounding countries in the region of southern Africa. Potential lessons can be learned from the South African record for informing the development of poverty reduction strategy papers in Africa (Hunter, May & Padayachee 2003). Within the international experience of LED planning, the South African experience also must be considered as notable, especially for the innovation of recent initiatives instituted for so-termed 'pro-poor LED'. The aim in this analysis is twofold. First, it is to furnish an introductory overview of LED initiatives in the country, in particular highlighting the growing significance of a varied number of pro-poor interventions, which must be set against the existing mainstream of pro-business or market-led LED interventions. Second, it is to provide a bibliographic review of scholarship on the existing body of LED research in South Africa as evidenced in post-1994 writings.

LED in South African development planning

Under apartheid spatial planning, heavy emphasis was given to top-down regional policy interventions that were centred upon promoting industrial decentralisation in the country's peripheral homelands or bantustan regions (Rogerson 1994a, 1994b). Local economic development planning was undeveloped in the apartheid era and confined largely to a scatter of small initiatives focused upon place marketing that was designed to attract inward investment (Rogerson 1999a). In post-apartheid South Africa, however, LED planning has gained considerable prominence in development planning with several initiatives, especially in cities to promote them as centres of production, consumption, knowledge, information processing and foci of government surplus (Rogerson 1997a). The official South African conception of LED accommodates elements of what in international scholarship are referred to as market-led and market-critical approaches towards LED (Scott & Pawson 1999). Although the roles of the private sector, NGOs and other stakeholders are discussed, local government is at the heart of LED development-planning debates in contemporary South Africa (Nel 2001a; Odendaal 2002). Indeed, local government officials are now forced to confront the issue of local government assuming the role of potential catalyst for local economic growth (Robbins 2003).

In this section, a review is presented of the evolution of LED planning followed by an analysis of the broad directions pursued in pro-growth and pro-poor LED planning. A complete understanding of the present South African emphasis on LED, argues Simon (2003), must be set within global changes affecting the country, contemporary international debates on the meaning and nature of 'development', and of local politico-economic and social transformation.

The advance of LED in development planning

In terms of the rise of LED planning, it is evident that since the 1994 democratic transition, the promotion of LED initiatives has emerged as a central facet of policy and planning for both urban and rural reconstruction (Nel 2001a, 2001b; Philander & Rogerson 2001; Rogerson 2002a). In several cases the onset of a local economic crisis linked to mine closures or de-industrialisation has been a compelling force for proactive LED initiatives (Nel & Hill 2003; Hill, Trotter & Nel 2003; Nel 2005).

The fresh emphasis upon promoting LED is inseparable from the changed processes that have been shaping the economy during the post-apartheid period (Bloch 2000). Of special significance is the implementation since 1996 of the country's Growth, Employment and Redistribution macroeconomic strategy, which aimed to accommodate the forces of globalisation and to ensure South Africa's re-entry into the global economy, making the country attractive to international investors, enhancing the role of the private sector and reducing the role of the central state (DBSA 2000). Hall and Robbins observe that within this changing context South African localities:

> have been forced to engage in serious soul-searching about their role in a new political order while facing up to complex and dynamic global forces. While the South African local state has certainly been an influential economic player in the past, it is only now that an attempt is being made to ensure that economic development is not merely the consequence of traditional local government activities (regulation, service provision, infrastructure maintenance and planning). Rather,

> economic development has become a guiding rationale behind the myriad of existing, and a host of new, responsibilities. (2002: 43)

Importantly, the landmark 1998 White Paper on Local Government introduced the concept of 'developmental local government', which was defined as 'local government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs and improve the quality of their lives' (RSA 1998: 17). The statutory principles for operationalising these concepts of developmental local government are contained in the Municipal Systems Act of 2000 (RSA 2000a). A critical feature of this Act is the notion of promoting so-termed 'integrated development planning' in terms of which LED is regarded as a key element (Harrison 2001; Odendaal 2002; Hindson 2003). In South Africa, integrated development planning is defined as a 'participatory approach to integrate economic, sectoral, spatial, social, institutional, environmental and fiscal strategies in order to support the optimal allocation of scarce resources between sectors and geographical areas and across the population in a manner that provides sustainable growth, equity and the empowerment of the poor and the marginalized' (DPLG 2000: 15). In essence, according to the Department of Provincial and Local Government (DPLG), the integrated development plan (IDP) is 'conceived as a tool to assist municipalities in achieving their developmental mandates' (DPLG 2000: 21), and as a planning and implementation instrument designed to bring together the various functions and development objectives of municipalities (Pycroft 1998; 2000a). Despite these developments, as was shown in Mpumalanga, many municipalities remain 'deeply uncertain as to what LED means, what they are supposed to do and how they are supposed to organise it' (Meyer-Stamer 2002: 3).

Since 1995, the lead actor and institution in developing a national framework for LED has been the Department of Provincial and Local Government (formerly the Department of Constitutional Development), which has produced a series of policy statements (Nel 2001a) culminating during 2002 in the release and workshopping of a draft national framework document on LED. By the end of 2004, however, no common policy framework document had been finalised and South Africa still did not have any agreed national policy to co-ordinate the proliferating developmental planning activities of local governments (Nel & Rogerson 2005). The (belated) finalisation and release by the national government of a framework document for guiding LED occurred in mid-2005. The core vision that is contained in the DPLG's Policy Guidelines for Implementing Local Economic Development in South Africa is of creating 'robust and inclusive local economies that exploit local opportunities, address local needs and contribute to national development objectives such as economic growth and poverty eradication' (DPLG 2005: 10).

Institutionally, several line departments of the national government assume important roles in the landscape of LED intervention. In addition to the DPLG, other national government departments undertake important programmes that impact upon the planning of LED. For example, the activities undertaken by the Department of Environmental Affairs and Tourism, in terms of providing a framework for tourism-led LED initiatives, and of the Department of Public Works, in terms of a roll-out of infrastructure programmes, are of increasing importance. Nevertheless, the most important department of national government influencing LED (apart from the DPLG) is the Department of Trade and Industry (DTI). For several years, the DTI has been expanding its role for influencing LED in South Africa, variously through its responsibilities for spatial development initiatives, tax holidays, cluster initiatives and small business development (Bloch 2000).

Overall, a striking divide occurs between the activities for LED by the DPLG and the DTI, with the former concentrating on issues of poverty alleviation and the latter more strongly oriented towards the promotion of economic growth (Rogerson 2002a). For some observers, the focus upon issues of direct poverty alleviation and of conceptualising LED as social policy is seen even as 'the predominant pattern in South Africa' and as diverting attention away from business development (Meyer-Stamer 2004b: 8). In a useful intervention, Marriott (2004) cautions against the danger of LED debates getting bogged down in terms of searching for an equitable or desirable balance between programmes that promote growth and competitiveness, on the one hand, as opposed to poverty reduction, on the other hand. Equally, it is important to avoid taking the position that it is possible or acceptable to achieve both global competitiveness and poverty reduction independently of one another. Failure to move beyond considerations of a 'balancing act' potentially will perpetuate the widely accepted notion that poverty reduction programmes are for the poor and global competitiveness projects are for the non-poor (Marriott 2004). In terms of moving the debate forward, researchers should address the more difficult question of how South African municipalities – collectively or individually – can achieve a pro-poor growth path that operates simultaneously to achieve the desired goals of economic growth, competitiveness and poverty reduction.

Pro-growth initiatives

The mainstream of LED planning in South Africa continues to be dominated by market-led activities that are geared towards achieving sustainable, high economic growth rates (Nel & Rogerson 2005). The creation of a sound governance environment provides the starting point or foundation for LED activities (Bloch 2000; Robbins 2003). Existing planning interventions across South Africa parallel the international record, with most urban areas initiating LED activities in support of building local competitiveness, many launching city improvement programmes and the majority seeking to support the growth potential of the small, medium and micro enterprise (SMME) economy. Several variants of 'place entrepreneurialism' can be identified, with the most important relating to promoting localities as competitive spaces for production, consumption and knowledge-based activities (Rogerson 1997a; 2000).

Despite a highly competitive global environment, the retention and promotion of manufacturing continues to be a significant LED activity, which is centred upon economic restructuring, promoting collective learning in industrial agglomerations, and maximising the development of firm competencies at the local level (Dorfling 2001; Machaka & Roberts 2004). Recent work in Ekurhuleni suggests an important role for a LED model that would effectively implement an industrial policy for broad-based industrial development and employment creation (Machaka & Roberts 2004). Elements of such a model include collective action by the government and firms to support the 'learning' of firms in developing production capacities, the building of institutions to support the interests of local manufacturers, and provision of appropriate institutions to support firms that adopt constructive strategies that enhance performance, including skills and technology development (Machaka & Roberts 2004; Pogue & Maharajh 2004). Support for integration both within industrial agglomerations and into the global economy is seen as requiring a partnership between national and local development planning (Zalk 2004). An important intervention is the establishment of industrial development zones, which represent a South African variant of export processing zones in which locational competitiveness is not rooted in cheap labour or fiscal incentives but instead on the efficiency of a locality for export-led growth, based, for example, upon high-quality infrastructure or streamlined bureaucratic processes (Rogerson 1999c; SACN 2004). The programme of spatial development initiatives has offered a base for several localities, such as East London and Nelspruit, to establish pro-growth LED activities (Adams & Moila 2003; Morrow & Engel 2003).

Across South Africa's leading cities, there is growing acknowledgement of the imperative to respond to situations of weak demand and microeconomic constraints on local productive capacity (SACN 2004). One core response has been for localities to gear into exports and seek to fix microeconomic constraints in order to engage competitively in the global economy, not least in the league of 'world-city' players (Rogerson 2005). Microeconomic reforms designed to make local economies more productive have been an important focus of LED intervention (SACN 2004). All South Africa's leading cities are seeking to attract or retain agglomerations of 'knowledge-based activities' as well as to widen and deepen their pool of local skills. In particular, there is intense competition emerging between the ambitions of Cape Town and Johannesburg to be the major national axis for high technology manufacturing and information technology activities (Rogerson 2002d). Another critical facet of efforts to attract knowledge-based economic activities is local-level interventions that are crafted to improve the local skills base for the nurturing of clusters of innovation and research and development activity.

The IDPs and broader restructuring plans of major centres highlight the issue of positioning the city in the global economy (see Hall & Robbins 2002; Nel, Hill & Maharaj 2003). Commonly, this has been associated with sectoral targeting or 'picking a number of winning sectors or sub-sectors that the municipality believes through targeted support, may become their city's competitive advantage in the global economy' (SACN 2004: 67). Typically, the outline City Development Strategy for Tshwane, which is focused on Pretoria, stresses 'strengthening key economic clusters to gain leverage from growth trends in manufacturing, government and business services', with identified actions to include 'city support for the automotive, defence and metal industries clusters, all of which have the potential for further growth and increased global competitiveness, including potentially forming a "super cluster" with mutually reinforcing initiatives' (SACN 2004: 68). The growing targeting of sectors is reflected also in the sophisticated strategies for investment attraction used by many localities, as is exemplified in the special attention given by Cape Town to attracting investors into the city's expanding film industry, the targeting by both Cape Town and Johannesburg of the labour-intensive call-centre industry, and the competition by all South Africa's major cities for the lucrative business of convention tourism (Gelling 2004; Lootvoet & Freund 2004).

Currently, with the growth in significance of tourism as a new economic driver for the post-apartheid economy, there is considerable local activity and emphasis upon tourism-led LED planning across large cities, smaller localities and rural areas (Nel & Binns 2002b; Binns & Nel 2002b, 2003; Rogerson 2002c; Visser 2003; Ndlovu & Rogerson 2004). The attraction of business tourism through the building of new convention centres, of leisure tourists through new waterfront redevelopment programmes, the hosting of festivals or the establishment and branding of themed routes, and of maximising the benefits of shopping tourism flows from sub-Saharan Africa are central elements of an array of LED activities anchored upon local tourism promotion (Rogerson 2002c; Visser 2002; Nel, Hill & Maharaj 2003; Rogerson & Visser 2004). Further, the hosting of 'mega-events' such as the Rugby and Cricket World Cups, the World Summit on Sustainable Development and the forthcoming 2010 FIFA World Cup offers added opportunities for maximising tourism-led growth opportunities in several South African cities.

Finally, in the search for more productive and competitive cities, other notable LED pro-growth interventions have been instituted. The South African Cities Network review (SACN 2004) draws attention to three key themes. First, a set of initiatives geared towards enhancing institutional efficiency and the efficiency of the urban form in terms of, for example, interventions designed to reduce the local cost of doing business in a particular locality or of improving local 'logistical pathways' in order to strengthen the relationship between economic growth and infrastructure investment. Second, a series of initiatives focused on improving safety and security through the installation of closed-circuit television in city centres that are responding to the findings from surveys that disclosed perceptions of crime and actual crime against businesses as major deterrents to business investment (Chandra, Moorty, Rajaratnam & Schaefer 2001). Third, another popular LED initiative amongst several of South Africa's largest cities is the operationalisation of the American model of Business Improvement Districts for the physical upgrading of inner-city areas (SACN 2004).

Towards pro-poor initiatives

Although the major directions taken by LED planning in South Africa's cities evidence a strong pro-growth bias, it is clear that a priority for the national government in terms of the outcomes of LED is that it should contribute towards addressing severe problems of unemployment and poverty (Abrahams 2003a; Nel & Binns 2003; Nel & Rogerson 2005). During 2002, an important national LED policy document entitled 'Refocusing Development on the Poor' was drafted (DPLG 2002). Anchored upon the work of Bond (2002, 2003), this document argued a case for promoting a 'pro-poor' LED that would explicitly target low-income communities and the marginalised as the focus of government policy. The following 'developmental' LED strategies were put forward for support: community-based economic development; linkage; human capital development; infrastructure and municipal services; leak plugging in the local economy; and retaining and expanding local economic activity. This document offered a potential national framework for LED activity by municipalities to be wedded to a strong pro-poor focus in terms of sustaining a developmental approach to their local economies (Bond 2003).

Since 1994, a pro-poor dimension has emerged in the LED operations undertaken by many (if not most) South African local governments (Abrahams 2003a; Nel & Rogerson 2005). At local level, the question of addressing the apartheid poverty legacy has been met in several different ways (Rogerson 2003a). Udesh Pillay (2004) recently has highlighted the role of locally-based associational arrangements in addressing poverty alleviation in a more inclusive manner in South African cities. The most widespread form of pro-poor intervention has been to strengthen the 'asset base' of poor communities (see Moser 1996, 1998).

Three critical policy areas are those that relate to improving regulatory frameworks, municipal services delivery, and issues of employment creation through the stimulation of local economic activities. In terms of regulatory frameworks, the core questions relate to land management and improving the access of the poor to new or improved sources of shelter. As shown by Beall and Todes (2004) from the experience of Cato Manor, a gender-aware approach can have positive pro-poor outcomes. A critical policy area of regulation relates to urban agriculture, which is seen widely as an important element in the survival strategy of many poor women and poor households more generally. The setting aside of land for the promotion of urban agriculture or community gardens is a growing element in pro-poor LED activities across South Africa (Rogerson 1999b, 2003c).

Another option for expanding the asset base of the urban poor is to enhance their limited access to the full range of municipal services, which would generally include water supply, sanitation, refuse removal, drainage, flood protection, local roads, public transport, street lighting and traffic management (Bond 2003). The limited access of the poor to such services is often aggravated by a tendency for design and service standards to be unaffordable or not planned to allow for incremental upgrading as poor communities improve and expand their willingness to pay for services. Important opportunities are identified in programmes of developmental service delivery for promoting new job opportunities as well as addressing poverty alleviation. In terms of infrastructure programmes, the opportunities exist at all stages of a project cycle, beginning in the stage of construction and continuing through the phases of implementation and maintenance of services. According to the findings of a recent survey, the application of public works programmes for job creation and infrastructure provision were identified as the two most popular individual LED strategies used by South African local authorities (Nel & Binns 2003).

For the poor, their greatest asset is their capacity for labour. In an International Labour Organisation investigation, unemployment was acknowledged to be the number one priority issue of local concern in most South African municipalities (ILO 2002). Thus, municipal actions targeted at creating employment represent important options for poverty alleviation. Nattrass (2003) and Lee (2004) point to a critical development dilemma, namely that in South Africa effective LED cannot be attained without addressing HIV/AIDS and that HIV/AIDS cannot be addressed without poverty alleviation and employment creation. A range of local government interventions can facilitate job creation in poor communities (Parnell & Pieterse 1999a, 1999b; DBSA 2000). The key sphere for policy consideration relates to the activities of the survivalist informal economy, including street trading, home-based enterprises, and micro-enterprise activities (Skinner 2000; Xaba, Horn & Motala 2002; Skinner & Valodia 2003; Lund & Skinner 2004). The existing support or policy interventions are either indirect or direct. In terms of indirect support for job creation, there are several areas of local government policy intervention that provide a more facilitative environment, especially for the functioning of both survivalist and growing micro-enterprises. The forms of policy intervention range from the development of a local information base, zoning changes, marketing support and promotion, facilitation of periodic markets, and assistance for development of appropriate vocational training (Skinner 2000; Gibb 2004).

Direct support for the poor can include local measures to improve the built environment for the activities of emerging entrepreneurs, including the facilitation of small business hives, incubators or nurseries, the provision of markets, or making available premises for use as local business information, support or advice centres (DTI 2004). Of critical significance as a pro-poor LED initiative is the application of public-sector procurement to support the development of black-owned small enterprises, in particular. It has been shown that South Africa's new programme of 'targeted procurement' enables public-sector procurement to be applied as a policy instrument by local governments in an efficient and effective manner, as well as facilitating the further implementation of the national government's programmes for assisting poor and historically disadvantaged communities (Rogerson 2004c). Further local job-creation initiatives in poor communities focus on improving the skills base or raising the value of human capital of poor communities (Cachalia, Jocum & Rogerson 2004; Gibb 2004). Finally, sectoral initiatives are emerging, which are targeted to support particularly those economic activities in which there is a high level of labour absorption of poor communities (Rogerson 2003a). In addition to support for the informal economy, other examples include clothing, tourism and urban cultivation (Rogerson 2003a, 2004a). In particular, the promotion of tourism and support for pro-poor tourism is another emerging facet of pro-poor LED planning (Rogerson & Visser 2004).

For some observers, 'LED is increasingly being used by central government to shift to local government some of the responsibility for dealing with unemployment and poverty' (Tomlinson 2003: 113). From the national government there continues to be a stream of programmes that reinforce LED towards a more pro-poor focus. First, in order to provide financial support for LED endeavours, the central government introduced an LED Fund in 1999, which is largely targeted at providing support for poverty-relief schemes (Binns & Nel 2002a). Second, the Expanded Public Works Programme, a nationwide large-scale programme launched in 2004, applies labour-intensive methods to upgrade rural infrastructure and absorb significant numbers of the unemployed into productive employment, albeit of a temporary character (McCord 2004; Phillips 2004). Third, the national government's Urban Renewal Programme contains an explicit focus on issues of urban regeneration and targeted support for township areas, especially for those localities, such as Alexandra or Mdantsane, most disadvantaged under apartheid. Fourth is the parallel Integrated Sustainable Rural Development Strategy (ISRDS), which is anchored on the notion that 'local demand-driven development in the context of empowered local government should provide the fulcrum around which sectoral departmental delivery would be coordinated, resulting in more integrated (and responsive) development' (Everatt, Dube & Ntsime 2004: 9). Essentially, the ISRDS aims to build upon existing support programmes 'through a well-coordinated, bottom-up approach to rural local economic development' (RSA 2000b: vii). None the less, it has been observed that, until recently, LED initiatives 'have been unsuccessful in integrating their plans with poverty reduction programmes, and this is largely attributable to the lack of appropriate experience and capacity at the local government level' (Hunter et al. 2003: 30).

Lastly, and potentially of considerable significance, is the redesign and relaunch in 2004 of the national government's support framework for small business development. Although the final details of the restyled Integrated Small Business Development Strategy are still to be released, it is known that the new strategy accords recognition to the demonstrated importance of local-level interventions for supporting the SMME economy (DTI 2004). In particular, the critical role of local governments in terms of the expansion of business infrastructure facilities, in the making of IDPs and in shaping local regulatory frameworks that directly affect the performance of small businesses, especially of those working in the informal economy (Xaba et al. 2002), is now openly acknowledged. Additionally, local government assistance for SMME development can be found in support for the Local Business Service Centres, which represent a decentralised support network for the provision of non-financial services to entrepreneurs. Currently, the national government is redesigning and rolling out a flagship pilot programme on LED to assist further the strengthening of the implementation capacities of local government for SMME development through focused support for capacity building and micro-finance, which has been identified as a critical support need for emerging micro-enterprises.

The development and content of South African research on LED

The first academic research published on LED in South Africa was that of Claassen (1991) whose analysis of early LED initiatives in the era of late apartheid stressed correctly that as local governments were not democratically elected, their development efforts would be biased towards the enfranchised portion of their cities. Another pioneering contribution to debates about shifts from regional to local development planning was made by Tomlinson (1993, 1994). Since the 1994 democratic transition, a growing number of research investigations have interrogated aspects of the unfolding LED policy and practice in South Africa. With contributions coming from a range of social science disciplines – planning, economics, sociology and, especially, human geography – the volume of available LED scholarship in South Africa is now impressive. Indeed, in terms of the developing world it is probably true to say that South Africa currently offers the best-documented experience of LED in any country of the South.

This bibliographic review of the first decade of research and debate on LED policy and experience aims to provide a guide or primer to the existing literature. As the boundaries of research on LED clearly are ill-defined and flow into wider literatures on, for example, small business development, tourism studies, spatial economic change or infrastructure development, the focus here is on those writings in which there is an explicit focus on questions regarding LED. In surveying this extensive body of material, it is useful at the outset to identify several themes and sub-themes in the writings on South African LED. Although areas of overlap occur, it is useful to categorise the existing sets of studies into four key themes:

- Writings that debate the evolving development and national directions of LED policy and planning;
- Locality-focused investigations of the LED experience and implementation in the country's major urban centres and secondary cities;
- Locality-focused investigations of the LED experience and implementation in the country's small towns and rural areas; and
- Areas of neglect concerning thematic, sectoral or impact investigations surrounding the implementation of specific forms of LED.

These four major categories represent the organisational framework for this bibliographic survey.

Research on the development and national directions of LED

It is interesting to record that while the activity of LED was marginalised in terms of development planning in the apartheid period, from the early 1920s through to the beginnings of apartheid there is evidence in a range of different South African localities of what has been termed 'incipient LED'. The works of Robinson (1996), Nel and Rogerson (1995, 1996) and Freund (2002) focus upon this historical phase of LED in South Africa in which place entrepreneurialism generally was coincident with place marketing initiatives for inward investment. Other writings draw attention to the linkage between the demise of top-down spatial policy in the apartheid era, which created new space for local initiatives, and the accompanying awakening of early forms of LED, which once again were primarily centred around place marketing and place re-imaging in order to attract external investors (Rogerson 1994a, 1994b).

With the transition to democracy and the enactment of the 1998 White Paper, a new burst of interest was evident in the changed directions of development planning within which LED was a new buzzword and focus for vibrant debate. Between 1994 and 2000, there appeared several studies in which South Africa's new policy discovery of a developmental role for locality was reviewed and the early post-apartheid experiences were recorded and debated (Nel 1994, 1995, 1999, 2000; Rogerson 1997a; Nel & Humphrys 1999; Parnell & Pieterse 1999a; Bloch 2000; DBSA 2000). Considerable importance was placed upon issues of local responses to globalisation processes and on South Africa's reinsertion in the global economy after several decades of increased isolation (CDE 1996a, 1996b, 1997; Rogerson 1997a; DBSA 2000). Some researchers looked to lessons from the experience of LED planning in other countries to inform South African policy discussions (Rogerson 1993, 1995b, 1995c; Maharaj & Ramballi 1996). Within this first wave of writings, the stress primarily was directed at the pro-growth axis of LED policy and intervention (Rogerson 1999a) and at the role played by the private sector in local development processes (Rogerson 1996a). None the less, a small number of studies raised questions concerning the role of LED in poverty alleviation and in the development of the poorest areas of South African cities (Harrison, Todes & Watson 1997; Isandla Institute 1999; Parnell & Pieterse 1999b; Rogerson 1999b; DBSA 2000). In rural South Africa, the emphasis on poverty issues was more pronounced, especially in works by Binns and Nel on community self-reliance initiatives (Binns & Nel 1999, 2000).

Taken together, these initial nationally focused works provided a solid foundation upon which more detailed and critical debates would occur surrounding the new system of local government, which came into effect on 6 December 2000 after the first fully democratic local government elections (Naude 2001; Nel 2001a, 2001b, 2002; Rogerson 2002a; Hindson 2003; Tomlinson 2003). For example, Naude and Krugell (2003) explore the extent to which the newly elected local authorities are able to generate local economic growth and development that will reduce current levels of spatial inequality in the country as a whole. Major debates were launched by the attempts made since 2002 to draft a coherent national framework document for LED (Bond 2002, 2003; Abrahams 2003a), which contained a strong pro-poor dimension, and by central government efforts to introduce a national fund in support of LED projects (Binns & Nel 2002a).

Other emerging themes surrounded research to contextualise evolving LED policy in South Africa within wider international debates (Simon 2003), to track the diverse range of LED initiatives across the country (Rogerson 2000) and to monitor on a more scientific basis the overall national direction of LED as pursued in the activities of South African municipalities (Nel & Binns 2003). A further important stream of research centred on investigating the restructuring of local government and the associated experience and problems surrounding IDP development and integration (Pycroft 1998, 1999, 2000a, 2000b; DBSA 2000; Harrison 2001; Robinson, Brown, Todes & Kitchin 2003). Finally, attention should be drawn to the recent appearance of a synthesis volume that catalogues the development and national directions of LED during the first decade of democratic rule (Nel & Rogerson 2005).

A locality focus for LED in large cities and secondary cities

It is apparent that the capacity and resource availability for pursuing developmental local government is most in evidence in South Africa's largest metropolitan centres and, to a lesser extent, in the secondary centres. The evolving directions of LED in the country's major cities – particularly Johannesburg and Durban – have been a major focus in South African LED writings over the last decade.

From the first detailed case studies on LED in South Africa's cities, the pro-growth or pro-business bias in municipal interventions was already clear (Tomlinson 1994). The findings of the major national survey of 'putting developmental local government in practice' once more demonstrated the dominance of pro-business interventions in evolving LED policy across South Africa's largest urban centres (Nel & Binns 2003). The early pro-growth emphasis was demonstrated clearly in focused works on Durban (CDE 1996b; Maharaj & Ramballi 1998), Johannesburg (Rogerson 1996b), Pretoria (CDE 1998), Port Elizabeth (Dorfling 2001), Cape Town (Marks & Bezzoli 2001) and Benoni (Walker 2000) as well as in broader overviews of the LED experience in a range of large and secondary cities in South Africa (CDE 1996a; Rogerson 2000). Since 2000, the country's large cities have continued with a strong LED focus on promoting competitiveness across various sectors and on repositioning themselves in the changing global economy (SACN 2004). In Durban research, the promotion of the competitiveness of the local economy has been reaffirmed through a range of flagship property development projects, including a new convention centre and tourism developments (Hall & Robbins 2002; Lootvoet & Freund 2004) and with the suggestion offered that these development projects represent the beginnings of creating a new alliance between old and new business elites in the city (Moffett & Freund 2004). In Ekurhuleni, the core LED emphasis has been reviving the industrial base and supporting the competitiveness of the existing cluster of manufacturing enterprises (CDE 1997; Machaka & Roberts 2004). In the case of Johannesburg, the explicit focus is upon the search for 'world city status' through enhanced competitiveness of targeted sectors (CDE 2002; Rogerson 2004a, 2005) and with solid support from the economic development interventions launched by Blue IQ, the provincial development planning agency for Gauteng (Rogerson 2004b).

Outside of the major metropolitan centres of South Africa, in the secondary cities, the imperative for implementing what Pundy Pillay (2004) describes as 'productive development policies' is stressed, particularly as a defence against the threat of economic marginalisation. Indeed, over the past decade, many of South Africa's secondary cities have confronted serious challenges of readjustment to a decline in the major element of their local economic base, as is shown by Mosiane (2000, 2002) in the cases of Mafikeng, Rustenburg and Klerksdorp, by P Pillay (2004) for Witbank and Newcastle, and by Binns and Nel (2001) and Nel and Binns (2002a) for the Free State Goldfields.

Notwithstanding this pro-growth bias of LED in South Africa's large cities, there is an evolution of initiatives that would be viewed as embodying a pro-poor orientation. One of the first studies was by Nel and Meston (1996) of Atlantis, Cape Town, which tracked the development of a series of community-led initiatives to transform this apartheid 'ethno-city'. The use of sectoral targeting as a potential vehicle for pro-poor planning has been highlighted from Johannesburg evidence (Rogerson 2003a). Several of the small types of pro-poor initiative would fall into the category of 'area-targeted initiatives', which are linked to inner-city renewal programmes taking place in Durban (Khosa & Naidoo 1998) and Johannesburg (Rogerson 2001a; Cachalia et al. 2004), and often embodying a strong focus upon the upgrading of small enterprise clusters such as in the example of Johannesburg's fashion district (Rogerson 2004c). In Cape Town, initiatives to regenerate the former decentralisation node of Atlantis exhibited early features of pro-poor intervention (Nel & Meston 1996). Moreover, the former municipality of Midrand in Gauteng Province has been shown as particularly innovative in terms of implementing eco-development approaches as a base for certain pro-poor interventions (Rogerson 2003b). In addition, in a Cape Town case study, Gibb (2004) has documented the critical importance of skills upgrading and training as a potentially pro-poor LED intervention.

Finally, in a rich and critical analysis of the building of a developmental local government to fight poverty, using Johannesburg as a case study, Parnell (2004a) moves the focus from the small-scale level to the larger questions of mainstreaming a developmental agenda that will enhance the lives of the urban poor. Parnell (2004a) highlights that the institutional frameworks of city government in South Africa are poorly constructed for the large-scale roll-out of municipal initiatives to fight poverty. It is argued that 'in South Africa, as in many post-colonial contexts, state apparatus especially at the sub-national level is inadequately configured for implementing a developmental agenda' (Parnell 2004b: 2).

A locality focus for LED in small towns and rural areas

As the relative proportion of the population classed as poor or very poor is highest in South Africa's small towns and rural areas, it is perhaps not surprising that most locality-based writings on LED in these areas necessarily encompass a focus that is oriented towards pro-poor interventions (Binns & Nel 1999, 2000). In the majority of South African small towns and rural areas, the most important local development issues are centred upon dealing with economic decline, job losses and problems of often severe poverty in a situation of limited capacity and resource constraints (see Nel 1995, 1997, 1999; Xuza 1999; Lloyd & Horn 2001; Seethal 2002; Nel, Hill, Aitchison & Buthelezi 2003; Nel 2005). A search for new drivers for small-town economic regeneration is a common focus (Hill et al. 2003).

In terms of the prospects for LED as an elixir for small-town South Africa, considerable early promise was attached to the encouraging record shown by the small Eastern Cape town of Stutterheim as documented by Nel (1994), Maqwangqana (1995) and Nel and McQuaid (2001). Nevertheless, major elements of the Stutterheim 'success story' were challenged by other works (Bond 1998). Another promising experience of small-town LED was documented in the example of Port Shepstone in KwaZulu-Natal (Harrison & Naidoo 2000). The local development trajectory of Orania, the first town of the envisaged Afrikaner homeland, provides a case study of small-town reconstruction with its roots in 'ideological and political conviction' (Kotze 2003: 170). LED initiatives focused upon agriculture by municipalities are a common theme, especially in poorer provinces (Eastern Cape Province 2003).

Entrepreneurship development is widely accepted as a critical step for LED programming across rural South Africa (Meyer-Stamer 2003b) and is a theme accorded prominence in the new national Integrated Small Business Strategy. In the search for economic revival through LED, many South African small towns have turned to the prospects offered by tourism-led development, a theme that has been recorded in a number of small-town case studies (Khumalo 1998; Nel & Binns 2002b; Abrahams 2003b; Binns & Nel 2003; Nel 2005) as well as rural community-based tourism projects (Ntshona & Lahiff 2003; Ndlovu & Rogerson 2004). The potential for linking together the attractions of a number of small towns or rural communities into themed or branded routes for tourists is another popular LED focus (Rogerson 2002b, 2004d). Other alternative bases for economic revival of small-town and rural localities have been documented in case studies of agriculture-led development (Nel 2005). However, for many rural communities across South Africa, the LED activity is often conditional upon successful land reform or land restitution processes (Philander & Rogerson 2001).

Development from below and the issue of local 'self-reliance' by ordinary residents are themes stressed in the experience of a number of locality-focused case studies of small-town or rural LED across South Africa (Nel & Hill 1996; Nel, Hill & Binns 1997; Xuza 1999). Indeed, the observation has been made that the emergence of rural informal activities, communal farming and various forms of community survival must be interpreted as a 'development from below' style of LED that is strongly characteristic more broadly of small-town or rural areas in the developing world (Binns & Nel 1999). Within these small-town and rural case studies, a heavy onus of responsibility often is placed upon the actual residents of the locality or the initiative of community-based organisations in achieving local self-reliance (Gibb 2004). The significance of 'social capital' in community-based initiatives and small-town LED has been highlighted (Nel & McQuaid 2001).

Some research gaps

Several aspects of the LED experience in South Africa remain under-researched. The most undeveloped aspect of South African research on LED relates to thematic or sectorally-based investigations. As has been shown, national-level debates on evolving policy have been extensively documented and researched. In addition, there is a considerable volume of case study material that interrogates at locality level particular experiences of LED in specific spaces. By contrast to this continuing stream of national policy research debates and locality-based investigations, only a relatively small number of thematic or sectorally-based research investigations of issues pertaining to the South African LED experience have been undertaken so far.

One of the most important elements for municipal governments and LED implementation is the question of financing. The critical theme of financing for LED across South Africa has been addressed recently in important research produced by Nel and Rogerson (2004). Overall, their study concluded that there existed major lacunae in the existing structures and frameworks that have been established, primarily by central government, in order to support the mix of pro-growth and pro-poor interventions as pursued by South African localities. The importance of local-level initiatives to support technological progress as a key ingredient for sustainable local economic growth and development has been highlighted in a useful contribution by Pogue and Maharajh (2004).

Currently, there exists only limited available sectoral or thematic research that explores the application of a particular form of LED intervention across a range of South African localities. The most well-documented intervention at present is tourism promotion (Rogerson 2002c; Binns & Nel 2002b; Rogerson & Visser 2004), in which there has also appeared a useful subsectoral analysis of the potential of budget tourism in the form of backpacking in terms of its local developmental impacts (Visser 2003, 2004; Visser & Barker 2004). The key findings suggest that tourism – or, more correctly, different forms of tourism – potentially can be a lever for both pro-growth and, importantly, a set of pro-poor initiatives for local development. Other sectoral work has addressed construction as a lead sector for LED through the application of targeted procurement measures that particularly support emerging enterprises and local labour in poor communities (Rogerson 2004e). The linkages between defence conversion and LED have also been the start of some exploratory research investigations (Rogerson 1996c; Abrahams 2003b). Small business development issues and local economic development are emerging as a key research nexus for the next decade and already have generated a number of useful contributions (Rogerson 1997b, 2002e; Skinner & Valodia 2003; Jackson 2004; Lund & Skinner 2004; Rogerson 2004c). The provision of business development services to SMMEs appears to be one of the most likely growth areas for future LED research (DTI 2004). The potential for urban agriculture to be a focus for pro-poor urban development planning has been investigated in a national analysis and remains a key issue (Rogerson 2001b, 2003c).

The last theme, of considerable neglect, concerns impact evaluations of LED interventions. As Meyer-Stamer (2003a) points out, given the significant interest in and growing commitment of resources to LED activities, it is remarkable how little evidence exists on the impact of particular forms of intervention. More controversially, elsewhere Meyer-Stamer claims that from the experience of urban areas, at present, ‘there is little good practice in LED in South Africa' (Meyer-Stamer 2003b: 5). Such claims appear, however, to be rather overstated and certainly do not justify the wholesale jettisoning of existing strategic planning approaches in South Africa. For Meyer-Stamer (2003a, 2003b, 2003c, 2003d, 2004a), the only option is the Participatory Appraisal of Competitive Advantage approach, a methodology developed and promoted by him and his consultancy partnership with the support of funders, GTZ.

In the final analysis, it must be concluded that while there have been many disappointments and failures in LED projects implemented in the first decade of democratic South Africa, at the same time there are several success stories, or at least promising interventions, that can be learning sources for LED practice. Among the most notable of these 'good practices' are the growth-promoting activities of Blue IQ in Gauteng (Rogerson 2004c), the trajectory of pro-poor growth exhibited by Johannesburg's emerging fashion district (Rogerson 2004c), the rich experience of area-targeted renewal and support for the informal economy in Durban (Khosa & Naidoo 1998; Skinner 2000; Lund & Skinner 2004), and the positive impacts of several tourism-led LED initiatives (Nel 2001a; Nel & Binns 2002b; Rogerson & Visser 2004; Nel & Rogerson 2005).

Conclusion

This chapter has sought to offer a perspective on the 'state of the art' of research and debate concerning LED in South Africa since the transition to democracy. In the wake of the growing policy significance attached to LED planning, it has been documented that LED issues have become a vital focus for South African researchers, particularly within economic geography (Rogerson 2002f). The remarkable total of over 120 academic articles, monographs and three books (Tomlinson 1994; Nel 1999; Nel & Rogerson 2005) precipitated by the rise of LED planning in South Africa are clear evidence of the continued vibrancy of local debates. Overall, since 1994 the pages of the journal *Urban Forum*[1] have emerged as, perhaps, the critical focal point for keeping up with debates, changing directions and research on issues of LED scholarship in South Africa.

Several key themes have been highlighted in this research review. First, driven by mandatory legal requirements, the origins of much LED activity in democratic South Africa differ from the situation in many parts of the developing world where LED was launched out of sheer necessity or desperation (Meyer-Stamer 2003c). Second, South Africa is increasingly seen as a leader, or laboratory, in terms of its emerging LED experience with potential lessons that might inform LED planning in other parts of the South where decentralisation is making advances (Nel & Rogerson 2005). Third, during the first ten years of democracy, the LED experience in South Africa was extensively debated and researched across a range of different aspects of policy development and implementation experience. It is argued that the record of LED implementation has been uneven, with the most successful initiatives occurring in the larger and more well-resourced metropoles. Fourth, while the overall weight of LED interventions has been towards pro-growth or pro-business, there is an emerging set of pro-poor interventions for LED, which has attracted the beginnings of research attention. Important question marks have been raised, however, regarding the structural and institutional capacity of the local state for driving an inclusive economic development agenda (Parnell 2004b). Finally, the research frontiers in South African LED are clear – now dominated by issues and debates concerning the imperative for pro-poor growth as well as the need for more sectorally-focused research and impact evaluations or closer monitoring of the progress of different forms of intervention.

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Notes

1 This journal originally was produced by Witwatersrand University Press, 1989–2000. Since 2001, *Urban Forum* has been published on a quarterly basis by Transaction Periodicals, Rutgers University, New Jersey, USA. Between 1994 and 2004, at least 27 research articles of direct relevance to South African LED debates appeared in *Urban Forum*.

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13 Local economic development: utopia and reality – the example of Durban, KwaZulu-Natal

Benoît Lootvoet and Bill Freund

Introduction

This chapter seeks to explore the meaning of the currently prevalent if fluid concept of local economic development (LED) and to examine how it is being applied in the context of a particular developing country, South Africa. Within South Africa, we shall focus on Durban, the Indian Ocean port and one of the six metropolitan super municipalities established in 2000 to accord with the requirements of the post-apartheid Constitution finalised in 1996, in order to evaluate progress and prospects in this area. The chapter tries to demonstrate that the local government bases its approach to LED issues on the promotion of public–private partnerships.

Patrick Bond,[1] prolific left critic of the ANC-controlled government of South Africa, has described LED as 'a discipline still coming into its own, with competing strands of argumentation still generating conflict' (Bond 2001). In fact, it is easier to see LED as a plant that has grown in the ruins of the earlier paradigms of planning and spatial management. Indeed, it is notable that the authoritative LED textbook in the USA represents a re-editing of what was originally a text on planning.[2] Between 1970 and 1990, the powerful post-World War II planning paradigm, which assumed that a central state could choose an industrial policy or develop a region around the systematic implantation of, for instance, heavy industry, was subjected to so much criticism and evoked so much scepticism that it has become impossible to pursue in any overt way. Large-scale public housing, aid projects, and steel mills designed to anchor the spread of modern industry have failed in their objectives too many times to convince planning contemporaries that there is a working paradigm available to them any more.

Not merely in the US literature but also as a generic concept propounded by the World Bank and other international agencies, LED has diffused widely. At first sight, it fits well some of the critical developments that have affected the planning literature. It goes well with decentralisation and the critique of the central state as the driver of uniform top-down planning initiatives. It also can easily be adapted to freeing up the initiatives of the private sector at whatever scale seems interesting, where belief in the generative capacity of the public sector has faded. However, LED offers no comprehensive model that all can follow comfortably.[3]

In fact, there are three particularly obvious, and indeed often contradictory, aspects that quickly emerge in the literature. First, LED lacks specificity as to what is intended by 'local'. Local can variously be defined in terms of anything from large-scale regions or provinces through substantial cities down to small neighbourhoods within localities. Second, the LED discourse is often fuelled by the same state apparatuses that the previous central-planning discourse was. Naturally, the role of the state is defined now as facilitative and regulatory, at most, no longer even as indicative, but the personnel responsible (and their intentions) often remain the same as before. There is a reluctance to admit that, consequently, the results of LED planning may be no better than its predecessor. Third, while the LED concept is applied to very different situations, there is no systematic differentiation made between applications in wealthy countries with a rich range of human and financial resources and very impoverished ones where resources are extremely scarce. A codicil might also be appended: as Jörg Mayer-Stamer (2003: 2) puts it, LED is not really a discipline at all – the 'political economy of economic promotion which it reflects is in the last analysis not a scientific exercise, but rather part of the everyday political struggle'.

We might further consider some of the different approaches in the way LED has been discussed in contemporary literature:

- LED understood as the encouragement of industrial clusters, as opposed to sites of heavy industry, which can be facilitated by decisive strategic and creative interventions.[4]
- LED understood as the revival of communities affected by the decline of particular industries and industrial processes. This may involve the attraction of new sources of domestic and especially foreign investment and export-oriented industries, the formulae that worked in the initial Industrial Revolution two centuries ago. On the level of the city or city neighbourhood, this may capture what has been called gentrification on the American model.[5]
- LED understood in terms of dynamic populist community initiatives. Here there is the assumption of accumulation strategies 'from below', with subsequently wider currency and beneficial effect especially on employment figures.[6]
- LED understood in terms of community initiatives linked to the provision of basic services that resource-poor and/or corrupt governments cannot deliver in Third World countries. This involves theorising about the use of locally generated forms of organisation and co-operative behaviour to provide self-help answers to basic problems. However, there is also an increasingly appended economic dimension focused on local specialisation, household diversification and institution building.[7]
- LED conveniently assimilated earlier paradigms that no longer read well but have not genuinely been rejected. Thus, LED may be assimilated into models of tax-free enterprise zones or activity corridors focused on anchor industries on a very large scale. LED may be assimilated in the urban context into the delivery of standard services such as electrification (sometimes with exaggerated hopes concerning the economic multiplier consequences of such service provision) or with the manoeuvres of urban officials along furrows that have actually been ploughed for a long time. These may in fact include long-familiar relations with the private sector, conventionally taking the form of lobbying, which now are being theorised in a particularly beneficial way as though they were novel.

Thus, the interest in LED is not really in the application of a well-honed and comprehensive theoretical policy tool but rather in understanding how LED is interpreted in a particular concrete situation and what its chances of success might be.

Local economic development in South Africa: what's at stake?

One reason why South Africa makes a unique and interesting platform from which to witness LED is that it is a mixture of developed country and developing country phenomena and stratagems. It enables comparisons with very poor countries and with Organisation for Economic Co-operation and Development members. In addition, it has been the site of recent dramatic political shifts.

With the change of regime in 1994, national reconstruction has been based on a democratisation of political and social life and on the proclamation of a politics of development, which would come to permit apartheid's victims to emerge from poverty. Symbolically, this was heralded by the adoption of the Reconstruction and Development Programme (RDP) as an election manifesto in 1994 on the part of the ANC. The social policy section of the RDP contains lengthy discussion of the injustices and inequalities in South African social conditions and calls for remedial efforts in numerous directions. It is true that the RDP, in the view of radical critics, was largely shunted to one side in favour of fiscal conservatism and policies that fit the economic trends dominant in the world of the Washington Consensus symbolised by the Growth, Employment and Redistribution strategy the policy adopted in 1994 (but not very different from the neglected economic section of the RDP manifesto, in fact).[8] It is also true that clearly the ANC has concerned itself – some would say primarily – with the creation of a black business elite that leans on the new state to create possibilities for itself.[9] None the less, the continued emphasis on redistribution has never been lost, as witnessed in South Africa's progressive income tax policy or the large sums made available for social expenditure. Recently, a critical view described South Africa as more of a welfare state than any other country in its category of per capita income.

Of particular importance is what South Africans call 'delivery'. By this is meant the provision of infrastructure, standard for the areas inhabited under the apartheid system by the white minority but only provided to a very inadequate extent for the majority of the people. In particular, the provision of safe water, electrification and the construction of formal housing is intended, although school and health clinic construction also features. But where does the capacity to provide 'delivery' lie? Where are the linkages towards achieving rapid economic growth for the benefit of all?

In the spirit of the RDP, a process of decentralisation has been initiated, including the creation of local governments with more capacity and means than most of their equivalents on our planet. In the South African case, as with other examples in the Anglo-Saxon world, some measure of decentralisation has been a long tradition, although the 1910–1994 Union/Republic of South Africa was not genuinely a federal state compared to Canada, Australia or the USA. Municipalities, however, with a financial basis in the collection of rates from property owners, had long held distinctive properties and considerable capacities to promote urban economic and social development (Freund 2002). This followed from the English model, already known in Victorian times from the more enterprising examples by the somewhat uncomplimentary term 'municipal trading' (Daunton 2000). The big South African towns contain considerable human as well as financial capital and experience in terms of construction and maintenance of infrastructure including housing, performed on contract in the past for the apartheid government.

In the South African case, municipalities and provinces were constitutionally declared to be co-equal generators of development with the central government, and this clearly represents, in part, the intention that they should play the critical role in the actual provision of politically urgent delivery imperatives. In the first years of democratic rule, the delivery process appeared to be running very slowly, with unused national and provincial budgets building up further pressure for effective action. One cause was, in a sense, a perverse effect of democratisation due to the lengthy phase of research and popular consultation, especially with regard to basic service provision and the management of development projects on the ground. Yet, one can still question whether giving voice to 'the community' – the previously disadvantaged population of colour – through granting the right to elect political representatives they have chosen, local representatives included, has given to them the capacity to turn themselves into effective promoters of economic and social development.

Already from the 1960s, theoretical discussions were held on the need to provide an effective, spatially-defined impulse to development, the more so if it were to come from the private sector. There was by then the recognition that space was organised in a way that obstructed development planning (Glaser 1988). A fundamental change that had to be put into motion was the restructuring of political space. Under apartheid, territory had to be defined racially, creating artificial boundaries from the perspective of development trajectories and zones of economic activity. The creation of Joint Service Councils and other regional structures in the last phase of apartheid was the earliest attempt to get around the problem without introducing any democratic input. From 1994 to 1996, de-racialised local government, while still accepting certain inequalities in representation, was introduced nationally, amalgamating the racially fractured territories. After the 2000 elections, in harmony with the 1996 Constitution, the state proceeded further to try to eliminate financially unviable municipalities but, above all, to consolidate the social and economic coherence of the municipal areas in order to increase the capacity of local governments to influence their development.

The question of capacity has a different resonance if one compares a poor, densely peopled rural district and a metropolis such as Durban, the principal container port in Africa with a diversified industrial base and well-established tourist facilities.[10] Thus, we need to distinguish our analysis clearly as one focusing on the largest units. In Durban, the metropolitan government proposes to be, if not the sole regulator of local economic development, at least a catalyst for initiatives leading to dynamic growth. Is this vision justified and can it be concretised? In effect, LED can be interpreted in two ways, which may have the same desired goal but proceed in different political modalities: one, the promotion of growth through the competitiveness of the economy; and two, the struggle against poverty. Which of these two (amongst the international meanings and interpretations of LED) is preferable? Are these two goals both possible to achieve at the same time?

In order to take on board these questions, however, first one has to grasp that the meaning of LED is in dispute between different planning practitioners. Bond (2001) sees this dispute in the following terms. There are those who favour older approaches to local planning, notably export tax-haven zones and activity corridors focused on large-scale industries intended to attract foreign investment. He is certainly correct that these were heavily promoted in the early phases of South African democratisation. The former has since then become less prominent in the international literature, as its early successes have not been replicated very effectively. However, support for the corridor or Spatial Development Initiative approach has been slower to decline. One linchpin, the Coega Harbour project near Port Elizabeth, is beset by difficulties but continues to be thought of as an answer to the problems of poverty and lack of industrial direction in the province of the Eastern Cape. Bond (2001) portrays some of the problems inherent in these approaches.

In contrast to these, Bond poses community-led development initiatives intended to indigenise and widen the accumulation process. He terms this an alternative strategy – 'municipal community services'-based LED – as opposed to what he calls 'orthodox LED' (Bond 2001: 20). His assumption is that state-led but community-directed projects in areas such as construction and electrification can serve as effective motors of economic growth. Here, as in some LED literature, the emphasis is on self-help and a small scale, as well as a benevolent public environment hovering in the background.

By drawing this contrast, however, Bond tends to neglect another aspect of the LED debate – the well-developed already existing public–private co-operation that has been critical in South African urban development for many decades. In the case of Durban, it was early in the transition period (1990) that Operation Jumpstart, functioning in a threatening political void, brought ANC politicians together with existing big business to develop some common goals as well as to begin to create a new and acceptable public discourse (Robinson & Boldogh 1994). For a long time, the city of Durban had used its considerable control over land sites to establish mutually beneficial relations with potential employers. The city had long committed itself to the tourist industry, especially in terms of the upkeep of the beachfront. This support had branched out in time to assisting in the promotion and display of sporting activity and to developing sites suitable for holding international conventions and conferences. Ability to make land available to builders was crucial to the exertion of influence by City Hall.

The municipality of Durban and the local economy

The government of a metropolitan area such as Durban (eThekwini Metropolitan Municipality) is a producer of services but these are largely limited to the provision of electricity and water, not negligible sectors, since the privatisation of the municipal passenger transport company in 2003. However, is the city otherwise limited to passivity in economic interventions?

In fact, the ways in which the local state can respond to economic challenges are several. First of all, it has the ability to produce a discourse. In this regard, the metropolitan government of Durban is prolific in producing literature aimed at attracting investors or holidaymakers, offering views of one of the richest and most attractive port cities in Africa to their gaze. Second, it can impose itself as a necessary intermediary for the private sector, and can in some circumstances play the key role in large-scale projects even when the majority investors are, in fact, from the private sector.

Before detailing the content of the involvement of the local state in the sphere of the metropolitan economy, we are going to present its principal characteristics.

Reflections on the Durban metropolitan economy

Durban is incontestably the major economic pole of KwaZulu-Natal, which itself extends through 92 100 km^2 (7.6 per cent of the national territory) and has a population of 9.43 million inhabitants (21 per cent of the national population) according to the 2001 Census. However, KwaZulu-Natal contributes only 15 per cent of the GNP, far behind the 40 per cent of Gauteng, where industry, commerce and the headquarters of enterprises are concentrated (DEDT 2002). The Durban metropole, which extends over 2 300 km^2, includes a population of 3.1 million inhabitants, in other words, one-third of the population of KwaZulu-Natal. However, it represents some 60 per cent of the provincial contribution to the GNP. One cannot really consider the provincial economy monocentric,[11] but the weight of Durban within it is very considerable and the strong growth of the Gross Provincial Product can be credited largely to Durban. Nonetheless, this growth pattern should not hide the slackness of the labour market or the imperative of restructuring the industrial sector, which historically has been the motor of the local economy.

With a contribution of 30 per cent to the gross metropolitan product, industry has a relatively heavier weight than in any of the other South African metropolitan areas (Morris, Barnes & Dunne 2002). Historically, the industrial development of Durban manifested itself particularly in sectors strongly dependent on imported inputs: chemicals, textiles, garments, shoes, automobile components, food and drink, paper and printing, metallurgy, and so on. An exception should be noted here – Durban being the centre of the sugar belt, local inputs have been critical in agro-industrial production.

The six most important industrial sectors are agro-industry, clothing, chemicals, textiles, metallurgical products and paper. Three of these – clothing, textiles and metallurgical products – have wages and salaries valued at more than half the value added in total (63 per cent, 57 per cent and 55 per cent, respectively). Thus, until recently, they were all considered to be sectors with a high labour content. However, they are industries that took off in the apartheid era under the cushion of strong tariff protection. The change of regime in 1994 has brought about a shift from import-substitution production to export promotion in a market more and more open to the rest of the world. Entire sectors, notably clothing,[12] have been destabilised through the sudden waves of competition coming from countries such as China, India and Taiwan. Those sectors potentially most vulnerable include the textile sector, clothing, automobiles and agro-industry. These represent about one-third of local industrial production and 45 per cent of industrial employment. Consequently, production shifts have been put into place aimed at increasing productivity, often with losses in the numbers employed.

Other industrial sectors are competitive, for instance petrochemicals and other subsectors of the chemicals industry. They are, however, and increasingly so, capital-intensive sectors. They cannot be expected to maintain, still less to increase, industrial employment. As the figures that follow show, the employment situation is desperate in South African metropoles generally, and in Durban particularly. According to the (admittedly controversial) results of the last Census,[13] the rate of employment in the population described as active fell from 68 per cent in 1997 to 57 per cent in 2001.

None the less, it is possible to paint a brighter picture of the vitality of the Durban economy if we shift to the incontestable advantage that lies in the presence of the port. The port is the principal link between the economy of South Africa and the rest of the world. This is a position that has been true since early in the twentieth century. Already by 1915, the Durban port attracted more traffic than all of the Cape ports (Jones 2002).

The port of Durban takes in most of the petroleum (and its derivatives) consumed in South Africa, including Gauteng with which it is linked by pipeline, as well as in neighbouring countries. However, it is particularly because Durban has benefited from the container revolution of the 1960s that the port has been able to become the premier port of the southern hemisphere.[14] In 2000, container traffic represented 1.2 million TEUS.[15] To handle this, the Durban port (before extensions) contained 66 specialised cargo sits over its 15 km course. By comparison, Cape Town has 35 such sites, Richards Bay 17 and Lagos 36 (Jones 2002).

Trevor Jones (2002) has attempted to measure, in part, the impact of the port on the metropolitan economy on the basis of 1994 statistics. With regard to activities taking place directly at the port itself, 360 public and private enterprises could be located, with a workforce of 24 000 people and a wage bill of one billion (1994) rand. The multiplier effect of these wages on the urban economy was estimated at R2.5 billion. If one adds on the jobs offered by subcontractors or indirect beneficiaries of port activities and those at the refiners directly dependent on the presence of the port, port activities could be said to generate at least 40 000 jobs. While many of these firms have since concerned themselves with increasing productivity at the expense of employment, this tendency has been partially ameliorated by the absolute and incessant increase in traffic and, thus, of the level of activity engendered.

The historical experience

Without claiming to offer a complete picture of the metropolitan economy, the preceding discussion aimed at reminding us that Durban can rest on a solid industrial base, although constrained by the difficulties of restructuring due to the liberalisation of the economy and its opening to the world since the change of regime. Financial and other sectors have developed along with the needs generated by industry. The port continues to manifest an incontestable vitality and constitutes the economic lungs of the metropolitan area, the province, the region and even the country. Generally, commerce in Durban benefits from the opportunities offered by the port. Despite this and the prevalence of wealth (sometimes considerable in certain social categories) that this economic dynamism generates, the statistics reveal chronic unemployment and, consequently, an endemic poverty for which the state, including the local state, is held responsible by the public.

What hold does the local government have on the local economy if it does not have the capacity to make the slightest intervention on its motor? The port is administered by a parastatal company, Transnet, responsible solely to the central government. What chance would the local government have of assisting the auto-making sector, organised around the Toyota factory (around 6 000 jobs) and the complex of subcontractors located in the southern and western industrial districts of the metropolis? Not much, for if Toyota Japan controls less than 30 per cent of Toyota SA (which belongs, for the most part, to Wesco, listed on the Johannesburg Securities Exchange), exports from the Durban factory, so closely linked to its capacity for further development, are strongly contingent on the franchising contract that links it to the Japanese mother firm.

Thus, the possibilities for the local state to affect the destiny of the metropolitan economy are reduced, on the one side, to legitimising a political vision of development for a variety of actors and, on the other, to sponsoring catalytic measures ranging from the provision of ad hoc structures, which may be taken up in regular form with time, or the financing of particular operations.[16]

Apart from the prerogatives and autonomy guaranteed to local governments through the Constitution, the local government in Durban has, through long usage, a historically generated visibility and plausibility.[17] Quite unlike other parts of Africa, where municipal authority was established late and incompletely in the colonial era without adequate financial resources, Durban has long ago integrated local government into public authority more generally. In this context, an administrative elite succeeded in placing itself alongside (and even, in some respects, above) a political and an economic elite. On this foundation, bolstered at times by events and local-scale crises, the modern local state was relatively successful in sustaining its legitimacy, notably in areas of economic intervention. Indeed, despite what common sense might suggest, after 1994 the majority of the population quickly reconstructed in its mind the link between the local government's obligations with regard to public service and its role as promoter of local development.

In analysing the structure of the local state from a historical perspective, Bill Freund (2002) has made clear some of the lines of force around which the municipality of Durban was constructed. In the nineteenth century, the city prospered on the base of commercial activities around the port. Thus, it is not surprising that the City Council from its creation in 1854 was composed in good part of merchants concerned that the development of infrastructure would correspond with their needs in assisting their businesses to grow. Therefore, the link between municipal administration and economic development has been established almost from the origins of the city.

One of the other aspects underlined by Freund is the origin of the population dominating municipal government in early Durban. Durban, unlike the other big South African cities, particularly before the 1940s, had a white population overwhelmingly of British, rather than Afrikaner, origin. Local elites had a measured response to the nationalist demands of Afrikaners and remained very permeable to British influence so that a 'British style municipal bureaucracy' was imposed on Durban (Freund 2002). In 1920, the Municipal Treasurer founded a section of the British Institute of Municipal Treasurers and Accountants. This move lay at the origins of the creation of a virtual caste of municipal administrators such as Ossie Gorven, head of the Treasury Department from 1962 to 1985. They had strong links with the university (Freund 2002). Gorven created a Capital Fund managed in such a way that financial revenues were in excess of the debts of the city accrued through development requirements from 1978. Durban developed an enviable reputation for the state of its finances.

Of course, good management cannot be divorced from the political ends that it serves. Historical analysis tends to confirm that, as generally within the English tradition, the local state was torn between two directions that it had to reconcile, laissez-faire and interventionism. These directions are less contradictory when the goal is to promote positive externalities, if private enterprise is integrated satisfactorily into its strategies. Here the question becomes whether the local state of Durban, in its initiatives, subordinates itself to powerful local economic operators, or if it genuinely belongs to an independent plan of action.

Between 'municipal trading' and the politics of development

Since December 2000, metropolitan government in Durban has taken the form of a Metropolitan Council with 200 elected representatives, but most powers are in fact retained by a subordinate authority, the Executive Committee, and the Municipal Council itself can call on the services of an administration that employs some 20 000 people, well-equipped under the leadership of Michael Sutcliffe, the City Manager, a white former academic with a strong ANC history.[18] He was formerly the powerful president of the Demarcation Board, which the national government used to sort out the boundaries of South African municipalities, in particular the drastic revision that took place before the 2000 elections.

From creating a discourse and establishing institutional arrangements…

Within the municipal administration, there are voices which, while making reference to recent theoretical developments concerning economic globalisation and local government (see, for example, Cox 1997; Storper 1997; Eisinger 1998; Scott 1998), argue in favour of proactive intervention for economic purposes. Thus, for instance, two employees in the Economic Development Department of the city administration, Hall and Robbins (2002), have conceptualised globalisation, following the work of Kiel (1998), as placing cities in permanent competition while offering them opportunities that they may be able to seize. This perspective calls for a response on the part of local government. Thus, 'globalisation makes states', in other words, globalisation invests new powers in the local sphere of government. The most recent integrated development plan (IDP 2003–2007) of the eThekwini Municipality is one of the clearest official documents thus far with regard to the role of local government in development. It puts clearly into print one of the main challenges facing the metropolitan government: 'Clearly the welfare and quality of life of all our citizens, as well as the ability of the Council to meet their needs, is largely dependent on the ability of our City's economic base to generate jobs and income' (eThekwini Municipality 2003: 7). Therefore, the city cannot rest at the whim of market forces. The first of eight points from which flows the argument of the IDP stresses 'sustainable development', which must mean the economic growth of the metropole from the point of view of both employment and city revenue.

Since 1997, the municipality has had a Department of Economic Development, one function of which is to co-ordinate the municipal inter-services committee that presides over the application of the Council's Affirmative Procurement and Tendering Policy, aimed at favouring small, labour-intensive black businesses in the expenditure of city funds. Municipal intervention in local development is not concentrated only in the direct line structure; to create or sustain linkage for the administration, local government has created a variety of agencies over which it assumes political control through the roles played by influential members of the City Council on their boards. Thus, the mayor himself presides over the Durban Events Corporation, which is meant to promote and organise international-scale events in Durban. Another example is the Point Development Company, which is undertaking the restructuring of a large part of the beachfront through the addition of new infrastructure (oceanographic museum and theme park, marina, hotel and high-class shops) in order to attract high-value tourism. The mayor is also a member of the administrative council of the Durban Investment Promotion Agency as well as of the Foundation for Social Investment. The first deputy mayor represents the municipality on the board of the municipal tourist agency, Durban Africa. Six municipal councillors participate on the board of the eThekwini Business Development Centre. All of these agencies are subsidised by the city; for instance, with an annual R15 million for Durban Africa and R7.5 million for the Durban Investment

Promotion Agency, both essentially lobbying agencies. Beyond this, the capacity of the municipality to intervene in the economic sphere is closely tied to budget allocations.

…to financing activities

In the 2002/03 Budget year, already, the big South African municipalities, except for Port Elizabeth, were provided with budget spending of above R3 000 per capita, a ratio more than 50 times higher than the government of Dakar in Senegal and between 14 and 20 times higher than the government of Abidjan in Ivory Coast, to take two African parallels.[19] Their total budget amounted to more than R47 billion, about one-third of the total for the nine provincial budgets.[20]

There is, moreover, a major difference between metropolitan and provincial budgets. The provinces are dependent for 96.1 per cent of their budgets on transfers from the centre (National Treasury Database 2002/03). By contrast, the big cities are largely dependent on revenues derived from taxes on property, whether or not developed, and on fees recovered in payment for the provision of services.

The budget structure calculated for the 2003/04 fiscal year underlines the choices that councillors and administrators have made with regard to development. The budget approaches R10 billion, 20 per cent calculated as an investment budget and 80 per cent as operating budget. Transfers from the national government, R349 million, amount to only some 4 per cent of the municipal budget. Thus, Durban is only marginally dependent on the national Budget. Between the 2002/03 Budget and the subsequent one there was a strong increase of 25 per cent on the investment side. This will have an automatic knock-on effect on working budget interest and other costs (maintenance, depreciation, financial charges and so on).

Durban's operating budget revenues derive for the most part (50.2 per cent in 2003/04) from paid services, of which the most important are electricity (35 per cent) and water (15 per cent). Rates contribute approximately 30 per cent to the budget. The only tax (very much restricted by the Constitution) that the municipality can raise on industrial or economic activity, the Business Service Levy, brings in R455 million, of which R135 million goes to the operating budget and R320 million to the investment budget.

Turning to expenditures (and thus to potential local government initiatives) one must first note the anxiety felt by the municipal administration regarding the apparently excessive part played by the total of wages and salaries (28.3 per cent in 2003/04). This excess is supposed to be checked through the work of a newly formed Internal Audit and Performance Management service funded with a budget of R17 million. Analysis of the budget confirms the concern of the municipality about infrastructural maintenance (electricity and water maintenance, sanitation, road and traffic signs and signals, and so on), representing 57 per cent of the expenses of metropolitan operations. The salaries of the employees in the various technical services bring the total up to 60 per cent. Some 9.8 per cent of the investment budget is measured through several line categories devoted to the potable water supply (connections and various other infrastructural expenditures) and 14.5 per cent to the electric services. Also to be stressed is the large sum of R510 million assigned to public housing (destruction of slums, construction of new housing), representing more than 25 per cent of the investment budget for 2003/04.

Expenditures on health, safety and security and other social services, together with expenditure on leisure activities, come to the substantial figure of R1.4 billion (16 per cent of the total gross working expenses). That this figure is not very much higher owes itself to the fact that education and health are largely the remit of the province. Also significant is the figure of R400 million that Durban devotes to the functioning of the municipal police force. After the end of apartheid, this traditional Durban feature was described as having an 'economic objective' in assisting the national police force in assuring the security of areas frequented by tourists, especially the beachfront, and industrial zones.

This budget analysis shows that Durban, far from being dependent on other spheres of government, instead tends to make up for their deficiencies. Thus, in the 2003/04 Budget, it was the municipal authorities who felt constrained to assume the provision of otherwise 'unfunded mandates' for reasons of local social and political regulation, which constitutionally ought to have been provided for out of provincial or national funds. If the city had not paid these sums, it could have put approximately R500 million into other expenditures, notably for social benefits.[21]

An assessment of the preceding figures indicates that the local state places great emphasis on social expenditure defined in terms of basic public services. This corresponds to constitutional requirements but also to a logic of *political* sustainability in covering the most obviously economic elements in the politics of local development.

Flagship projects

The economic strategy of the local government places itself directly in the context of a Durban growth coalition, which it has promoted in association with the Chamber of Commerce and Industry, numerous individual actors and the provincial government. The Third Economic Growth Summit, which it helped to organise in 2003, contributed towards shaping its policy of sustaining the economy through concentrating its energies, both in terms of political leadership and financial resources, on a limited number of large projects, while appealing to the private sector for support and aiming at maximum local, national and international visibility.

The two flagship projects focused on here are symbolically important: the enlargement of the International Conference Centre (ICC) and the redeployment or development of the beachfront tourist infrastructure (leisure activities, commerce, hospitality services) to a run-down area on the edge of the port (uShaka Island and the Point Precinct Development). There are two distinct logics in these big projects. First, they represent an aggressively competitive response to initiatives from other centres to attract the flow of wealth expected from international tourism, conferencing and big intercontinental sporting events. Second, they are promoted by local government because they are expected to have a beneficial effect on increasing employment and the gross local product.

Some R280 million has already been allocated to the Durban investment budget (shared between three budgets for the fiscal years through to 2006) for the ICC extension. The ICC is already the biggest conference centre on the African continent but it is now threatened by projects creating equivalent facilities in Cape Town and Johannesburg. On the basis of the extension, the ICC could accommodate conferences attended by up to 10 000 people on a site of 32 000 m^2, thus trumping South African competitors. The extension, to be completed in 2006, is supposed to create 23 000 jobs in ten years and inject R612 million into the gross local product from the first year. According to the mayor's office, the contribution over ten years is estimated at R21.6 billion (*The Mercury* 12 November 2003). This announcement was accompanied by a decision to add a large sports complex to the ICC as well as a luxury hotel complex. This complementary programme, the costs of which have not been placed in the investment columns of the municipal budget so far, will supposedly provide 15 000 jobs. The uShaka Marine World, only one part of the set of beachfront rehabilitation projects that will cost the city R300 million (according to the 2003–2006 investment budgets) is scheduled to attract 1.4 million annual paying visitors from the first year, a figure expected to grow by 8 per cent per annum for the first decade after opening. The concessionary company hopes to earn R130 million in the first year and double that figure by 2016 (*Business Report*, 5 June 2003).

There is a final project to which some local forces are strongly attracted that deserves mentioning although it has been mooted for almost 30 years – the iDube Tradeport. Presented as the most ambitious initiative of its kind ever in Africa, the project consists of the establishment of a new international airport to the north of the city, joined to a so-called cyberzone of industrial development. This space would be integrated into new road and rail linkages connecting it to the mineral port of Richards Bay as well as an expanded Durban port. The local government lacks the means to provide the leadership here, which would depend on national and provincial commitment and the interest of international investors. However, the project has been provisionally provided with R50 million in the 2004/05 and 2005/06 development budgets, amounts that could be substantially increased under favourable circumstances. In addition, the local government has engaged in considerable lobbying in this regard. This is hardly surprising if one considers that a feasibility study published by local and international consultants claimed that the construction of the airport would require the employment of at least 100 000 people directly and indirectly, and the only increase in taxes anticipated would comprise a successful return on investment by the standards of the private sector. Tax on land here would bring in R130 million per annum, approximately one-tenth of the amount of the tax on the actual property (*The Mercury* 3 March 2004).

However, in conformity with the IDP, the city seeks an equilibrium between these new development possibilities based on criteria of 'economic rationality' and the political imperative to rearrange and desegregate metropolitan space. Thus, in the development budgets of recent years and the projections for coming years, there is some evidence of the intention to rehabilitate or revitalise former residential areas and, most notably, the Central Business District and the Southern Industrial Basin of the metropolis.

Conclusion: control of local development through public–private partnerships?

It is striking that the different initiatives of the municipality in local economic development are conceived of as modalities within a partnership of the public and private sectors. In South Africa, the concept of public–private partnership (PPP) has been put forth as a principle in government documents.[22] This principle is already in play, as certain sensitive functions of government have been allocated to renewable private subcontracting. The recovery of debt payments, the reading of water and electricity meters on which the payments to the municipality are based, and the use of private security companies working under contract to the local police are examples.

The extension of such measures is being studied, as is the establishment of opportunities for Civil Society Partnerships and PPPs along the lines envisioned in the Local Government Municipal Systems Act of 1999. The partnership that has been proposed between the local government and insurance companies in order to create a special Anti-Hijack Unit[23] would represent a new and striking linkage, especially if it were to be extended to emergency services, for instance anti-fire protection.

With regard to PPPs, let us sketch three possible scenarios. The first is represented by an equitable and harmonious compromise between the private and public sectors on the basis of common activities benefiting the largest number of citizens. The second is a scenario attacked by the more radical enemies of neo-liberalism. Here, partnership really is just a slip that effectively masks not just the privatisation of public services but, more seriously, the public sphere generally. Perhaps it is naïve, but let us introduce a third scenario, whereby the public authorities, through participation in a multiplicity of partnerships with the private sector would acquire, or re-enforce the acquisition of, a capacity to control or regulate sectors of activity that are critical to social and economic development as a whole. In the specific case of Durban, this is a hypothesis that has been explored recently with reference to public passenger transport (Bellengere, Khan, Lootvoet & Vermeulin, forthcoming). In 2003, Durban privatised its municipal bus company while creating a Transport Authority, an agency of regulation only, which has the ambition to oversee the entire system of metropolitan transport. Is this not, in fact, what is being put in play in the areas where the local state has chosen to intervene more generally in Durban? Of course, to sustain this third scenario postulates that the local political class is capable of resisting provincial and national pressures in this regard.

It is still much too soon, given the extreme youth of the post-apartheid municipal dispensation, to know if the central government will choose in future to neutralise politically and institutionally those who may come to benefit from the autonomy generated by local economic development deriving from the possibilities of empowerment at the local level (in the sense of Kiel 1998). The ruling party in South Africa is strongly centralist in origins, but it is the scene of internal tensions and has constitutionally empowered the local prerogatives of government, although their realisation is rarely a subject of discussion. None the less, there remains the task of measuring the real economic effects of displacing a part of public decision-making about development from a centre to various peripheries.

Economic theory does not allow us to measure reliably the relationship between economic growth and the equilibration of institutions. Of course, local political authorities in Durban do not concern themselves with such theoretical considerations, or the imprecision of LED more generally, but they do affirm some determination to give LED a tangible reality. To this end, they forge alliances with private operators in the mounting of large-scale projects, which has the effect, amongst others, of consolidating a new and politically useful local economic elite. One can imagine, beyond the PPP framework, an alliance between the old (and white) elite and the new elite (of colour) that might be forged in the future (Freund & Moffett 2004). The consequences for the mass of disinherited Durbanites, however, are more uncertain. Despite all the extremely positive projections that have been noted, the employment possibilities on offer for the unskilled and poorest strata of the population are unclear. This casts a sharp light on the ambiguities and uncertainties of the LED discourse. Can the privileged and unprivileged benefit equally?[24] The near future will probably make it clearer whether the local state is able to be more than a mere master of ceremonies presiding over the efflorescence of profitable or risk-free activities on the part of the private sector, or whether the third scenario suggested earlier can find in Durban an effective stage for its performance.

Notes

1 Author of *Elite transition: From apartheid to neo-liberalism in South Africa* and other books, most recently *Unsustainable South Africa*.

2 Blakeley (1994) *Planning local economic development: Theory and practice*.

3 This lack of theoretical consistency is openly accepted in, for instance, Bingham & Mier (1995).

4 For instance, see Mayer-Stamer (2003) and Schmitz (1995). Mayer-Stamer's deep understanding of the issues around LED influences these pages more generally. For texts that helped shape the cluster and value-chain family of approaches, see Piore & Sabel (1984), Porter (1990) and the largely very critical Amin (1994).

5 Powerfully critiqued by Logan & Molotch (1987) in a classic analysis, amongst many others.

6 Bond (2001) provides such a model in a critique of other approaches.

7 For a general introduction, see Helmsing (2003).

8 In defence of the RDP, see Bond (2000). For key assessments of this shift, see Marais (1998 and subsequent editions) and Cling (2000).

9 For an early statement of this, see Adam, Van Zyl Slabbert & Moodley (1997).

10 A recent assessment of the capacity of municipalities to provide benefits for their citizens shows a range between six metropolitan zones spending an average of R2 525 per capita, and 28 Class V towns with R313 to spend and, at bottom, 30 Class VII new urban zones spending a mere R2 per capita, as of 2000/01 (presentation by Michael Sutcliffe, CEO, Ethekwini Municipality, 4 May 2004, School of Development Studies, University of KwaZulu-Natal).

11 There are two significant secondary economic poles, the political capital, Pietermaritzburg (with a little more than a half million inhabitants in 2001), now the Msunduzi Municipality integrated into the Umgungnudlovu District Municipality after 2000, and Richards Bay (approximately 290 000 inhabitants in 2001), re-baptised Umhltathuze Municipality and integrated into Uthingulu District Municipality, where the largest mineral export port of South Africa is situated.

12 According to Morris et al. (2002), this sector consisted of 525 enterprises in KwaZulu-Natal, of which 416 were in Durban, employing 32 409 workers, and accounting for 79 per cent of the gross product and 76 per cent of the wages in the province.

13 One criticism directed at the Census is that it has not been very successful at capturing activities in the so-called informal sector.

14 Measured in terms of freight handled, because the mineral volume of Richards Bay places it well ahead of Durban in pure volume. Approximately only 10–15 per cent of the merchandise handled in Durban, excluding petrol, consists of unprocessed primary materials.

15 Twenty Foot Equivalent Units, the international measure used for container traffic.

16 Although it could be said, as well, that this applies to national governments, including those in wealthy and industrialised countries. If European countries are so impotent when it comes to putting into practice policies intended to launch growth (in effect, the politics of development), it is because they are less and less able to be effective actors in a system of globalised production and can only marginally influence the evolution of the market for capital, goods and services.

17 Here we are referring to the white core of Durban from the apartheid era.

18 Sometimes too well-equipped; for instance, as at 2001 no less than 30 GIS services were in use in different departments, suggesting a lack of rationalisation of information in the municipality as a whole.

19 These figures were calculated by Benoît Lootvoet. Those for Abidjan apply to the situation before the national crisis of recent years.

20 This amounted to approximately R145 billion, according to the *Medium Term Expenditure Framework* of the Ministry of Finance.

21 These items included spending on libraries (R104 million), health (R171 million), fire services (R125 million), reconstruction after storms, etc. (R4 million), museums (R25 million), transport (R70 million) and habitat/hostels/townships (R36 million).

22 For instance, with reference to local government, one can cite the White Paper on Local Government of 1998 or the White Paper on Municipal Service Partnerships in 2000 as examples.

23 The statistics related to car thefts and other equally economically disruptive crimes suggest such high figures that their diminution would probably have a very beneficial political and social effect for the state and a financial one for the insurance companies.

24 For a sceptical point of view on this question, see Bouillon (2002).

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Section 6
Labour, work and the informal economy

14 Labour supply and demand constraints on employment creation: a microeconomic analysis

Haroon Bhorat

Introduction

The democratic government inherited a labour market that had been subject to the long-run effects of structural shifts and technological change in the domestic economy. The former was represented by the shift in output away from the primary sectors toward the services sectors, while the latter has been manifested in the onset of the microelectronics revolution as well as significant increases in capital–labour ratios. The labour market consequence of these changes has been to increase the demand for highly skilled workers, combined with large-scale attrition at the bottom end of the labour market.[1] The post-apartheid period has also been marked by the addition of one crucial causal variable – the relatively poor performance in economic growth. There can be no doubt that this low level of output expansion has impacted negatively on the propensity of the economy to create employment. The purpose of this paper then is threefold. Firstly, to provide a brief descriptive overview of shifts in employment and the trajectory of labour demand in the period 1995–2002. We then go on to consider two composite microeconomic constraints that operate on the labour supply and labour demand side respectively. The former will examine the nature of households that the unemployed reside in, and the latter examines the constraints that firms may be facing with respect to the labour regulatory environment. These two microeconomic constraints, it is argued, may lie at the heart of the employment challenge facing the country.

Post-apartheid labour supply trends

Table 14.1 presents a snapshot of the key labour market statistics for the period 1995–2002. Concentrating on the labour force data, according to the expanded definition of unemployment (the 'unofficial' definition), it is evident that over this period the economy created about 1.6 million jobs. While the sectoral and skills detail of this growth did of course vary, it is clear that the notion of aggregate 'jobless growth' in the South African economy is erroneous. The economy, in the aggregate, has been creating jobs rather than shedding them.

It is important though to try and place this absolute expansion of employment in context. Specifically, it is necessary to assess the number of jobs that have been created, relative to the new entrants that have come into the labour market annually between 1995 and 2002. The data indicate that between 1995 and 2002, the number of new entrants increased by about five million individuals. This has meant, therefore, that about 3.4 million individuals – some of whom were first-time entrants into the labour market – have been rendered or have remained jobless since 1995. As a result of this employment performance, unemployment levels increased to over seven million individuals in 2002.

Table 14.1 A snapshot of key labour market trends, 1995–2002

Category	1995	2002	Change	Change %	Target growth rate	Employment absorption rate
Employment	9 557 185	11 157 818	1 600 633	16.75		
Unemployment (expanded definition)	3 883 819	7 288 833	3 405 014	87.67		
Labour force	13 441 004	18 446 651	5 005 647	37.24	52.38	31.98
Official definition estimates						
Employment	9 557 185	11 157 818	1 600 633	16.75		
Unemployment (strict definition)	1 909 468	4 271 302	2 361 834	123.69		
Labour force	11 466 653	15 429 120	3 962 467	34.56	41.46	40.39

Source: StatsSA 1995, OHS; 2002, LFS Feb

Note: The official definition estimates are based on the assumption of the strict definition of unemployment, and hence conceive of a labour market that excludes the discouraged work-seeker. The 1995 data have been re-weighted with the 1996 Census weights to ensure comparability across the two time periods.

Much of the debate around employment trends in the post-apartheid period has become anchored around the notion of 'jobless growth' – that in combination with unspectacular economic growth, jobs have been simultaneously shed across most sectors in the economy. The initial data here make it plain that the economy did not experience an absolute decline in employment. Put differently, the notion of 'jobless growth' characterising post-1995 employment trends is simply wrong. However, it is important to note that while we did not have jobless growth in this period, we have clearly had employment growth that was insufficient relative to the growth in the labour force. In order to provide a basic litmus test for these labour market trends, we have used two very simple performance indicators, shown in Table 14.1. These are the 'target growth rate' and the 'employment absorption rate'. The target growth rate summarises the desired employment growth rate for the economy as a whole, measured by simply allowing employment to grow from 1995 onwards by the full change in the labour force over the 1995–2002 period. Specifically, the target growth rate (T_k) is measured by:

$$T_k = \frac{EAP_{kt} - EAP_{kt-1}}{L_{kt-1}}$$

where EAP refers to the economically active population for group *k* and *L* is the number of employed individuals, by any given covariate. Note that because this target growth rate captures the growth required to provide employment to only the new entrants since

1995, it is essentially the rate of growth required to absorb all net new entrants, independent of the unemployment numbers existent in the base year, namely 1995. The employment absorption rate (ER_k) is the ratio between the actual employment growth and the desired (or 'target') rate, and is expressed as a percentage. Hence, it is simply:

$$ER_k = \frac{\dfrac{L_{kt} - L_{kt-1}}{L_{kt-1}}}{T_g} = \frac{L_{kt} - L_{kt-1}}{EAP_{kt} - EAP_{kt-1}}$$

The closer the employment absorption rate is to 100, the better the actual relative to the desired employment performance. These figures are critical as they are predictors of relative employment performance – something that the standard growth rates do not yield.

The data from Table 14.1 thus suggest that while employment grew at 17 per cent over the period, if all the new entrants were to have been placed into employment since 1995, employment would have had to grow by 52 per cent over the period. In other words, in order to maintain unemployment at its 1995 levels, employment should have risen by just over three times the existing rate. In terms of the employment absorption rate, the data suggest that over the period the economy has been able to provide 32 jobs for every 100 economically active individuals in the labour market. Even by the strict definition of unemployment, which is the government's official representation of the labour market, the economy has created only 40 jobs for every 100 members of the labour force.

How poor has employment growth been?

The above figures clearly point to the growing numbers of unemployed individuals, as a result of employment growth not keeping pace with the growth in the labour force. It is important, however, to note that ultimately the demand for labour is a derived demand for labour – growth in jobs is inextricably linked to the growth in output. Poor economic growth will deliver (controlling for factor ratios) low levels of employment expansion. Indeed, this line of reasoning falls empirically within the domain of output–employment elasticities. Generation of these elasticities falls outside the domain of this chapter, but what is attempted is an indicative assessment of how poor employment growth has really been in the domestic economy since 1995. An important point of departure in this regard is to examine national economic growth rates over this period. Data reveal that over the 1995–2002 period, economic growth rates hovered in a band between 0.8 per cent and 4.3 per cent, with an annualised mean of 2.8 per cent over the period. Employment growth over this period grew, as indicated earlier, by 16.75 per cent, which is a mean rate of about 2.1 per cent per annum. In very simplistic terms, this comparison indicates that for the level of output growth recorded for the economy, employment expansion has not been as dismal as is often indicated.

The critical caveats to the above representation are fourfold. Firstly, the relationship between output and employment will, and indeed does, vary across sectors. Hence, we may find that sectoral output growth in some sectors results, through changing factor proportions, in a relatively inelastic employment response. A sectoral division of the employment–output relationship, therefore, may reveal 'jobless growth' in some sectors. Thus, it remains important to keep in mind that while in the aggregate the employment performance of the economy has not been as abysmal as is frequently suggested, the sectoral evidence in some cases may reject this notion.

Secondly, we cannot be sure if the growth in employment is primarily a function of informal sector expansion. Hence, output growth may in fact be associated with growing informal employment, but aggregate contraction of formal sector employment.[2]

Thirdly, the growth in employment recorded is for all workers, irrespective of their supply characteristics. Hence, as discussed later, the nature of employment growth may be biased towards skilled and semi-skilled workers, with unskilled workers still losing their jobs over this period. Put differently, the basic output–employment relationship referred to earlier may mask specific skills preferences in the labour demand trajectory of the economy.

Finally, the above estimates do not reveal anything about possible changes in the quality of employment. Quality of employment may be affected through, for example, the increased prevalence of part-time work, reduction in benefits offered to the workforce, greater outsourcing, and so on. Lundall, Majeke and Poswell (2004) and Hinks (2004) provide preliminary evidence on the growth of atypical forms of employment.

Ultimately, though, the aggregate data suggest that while employment expansion has been recorded since the first majority government, we need to be mindful that in terms of the economically active population and its growth over time, this job performance has been far from adequate. In the lexicon of this chapter, what this suggests is that the current level and trajectory of economic growth has not been conducive to employment expansion. While this analysis falls well short of providing formal output–employment elasticities, it provides fairly powerful, albeit initial, evidence of the fact that the growth–employment relationship in this seven-year period has been notably inelastic. Put differently, the economy's low and single-digit growth rates have been consistently unable to act as a generator of a sufficient quantum of employment in the domestic economy. It needs to be remembered, though, and this is discussed in the data that follows, that in addition to the problem of low growth inhibiting labour-demand expansion, significant labour supply-side constraints continue to exist and also inhibit employment. These are manifest in the form of inadequate supply characteristics amongst a large number of the unemployed in the face of what has now been well documented for South Africa as skills-biased employment growth.

Skills-biased employment shifts

As alluded to earlier, together with output expansion at the sectoral level, what is also relevant in terms of labour demand patterns is the particular configuration of skills needs that can be identified within each sector. This provides another important layer in understanding the unevenness of economic growth at the sectoral level. Table 14.2 documents the changing nature of employment by three broad skills categories at the main sector level. The national figure reflects the continuation of the long-run labour demand trend, namely that output growth continues to be skills-biased. Hence, we see that despite the evidence garnered earlier of aggregate employment growth, the share of unskilled workers in the labour force declined by four percentage points, from 31 per cent in 1995 to 27 per cent in 2002, while the shares of skilled and semi-skilled employment both increased by two percentage points.

Table 14.2 Share of employment by main sector and three skills categories

Main sector	Year	Skilled	Semi-skilled	Unskilled
Agriculture	1995	0.01	0.22	0.77
	2002	0.01	0.56	0.43
Mining & quarrying	1995	0.04	0.77	0.19
	2002	0.04	0.89	0.07
Manufacturing	1995	0.06	0.74	0.19
	2002	0.10	0.75	0.15
Utilities	1995	0.06	0.79	0.13
	2002	0.09	0.82	0.08
Construction	1995	0.06	0.74	0.19
	2002	0.06	0.74	0.20
Internal trade	1995	0.14	0.66	0.20
	2002	0.10	0.60	0.30
Transport & communication	1995	0.15	0.73	0.11
	2002	0.22	0.67	0.11
Transport	1995	0.19	0.69	0.12
	2002	0.23	0.64	0.12
Communication	1995	0.05	0.83	0.10
	2002	0.17	0.78	0.05
Finance	1995	0.17	0.77	0.06
	2002	0.25	0.67	0.08
Community services	1995	0.13	0.71	0.15
	2002	0.19	0.70	0.11
Private households	1995	0.00	0.03	0.97
	2002	0.00	0.16	0.84
Other & unspecified	1995	0.20	0.48	0.31
	2002	0.22	0.50	0.28
Total	1995	0.09	0.59	0.31
	2002	0.11	0.61	0.27

Source: StatsSA 1995, OHS; 2002, LFS, Feb

Notes: (1) 'Skilled' refers to International Standard Classification of Occupations (ISCO) Codes 1 and 2, 'semi-skilled' refers to ISCO Codes 3–8 and 'unskilled' refers to ISCO Code 9, excluding Code 9999. (2) 1995 'unspecified' includes armed forces, numbering 17 399. (3) For 1995 and 2002, 'unskilled workers' includes domestic workers. (4) 'Private households' for 2002, and 'domestic services' for 1995, were treated as synonymous here.

In turn, it is evident that these patterns of declining proportions of unskilled workers and higher shares of semi-skilled and skilled employees are reinforced at the sectoral level. In manufacturing, for example, the share of skilled workers in employment increased from 6 per cent to 10 per cent, while that of unskilled workers declined from 19 per cent to 15 per cent. There was then essentially a redistribution of jobs within Manufacturing away from unskilled workers toward skilled workers. This pattern is replicated noticeably in sectors that reported a reduction in aggregate employment. Hence, in mining & quarrying, communication and community services there has been a movement away from unskilled workers toward semi-skilled and/or skilled employees. Interestingly, in the internal trade sector, the reverse seems to have occurred, where the share of skilled workers declined and that of unskilled employees increased. A telling statistic is that in 7 of the 12 sectors there was a decline in the share of unskilled workers.

The above indicates a dual challenge for the domestic economy, in terms of producing an adequate economic growth strategy. Firstly, there is the challenge of converting the current low and erratic levels of economic growth to higher and more consistent rates of output expansion. Secondly, it remains likely that the nature of labour demand uptake as a result of economic growth will continue – namely, the disproportionate uptake of semi-skilled and skilled workers, relative to unskilled workers. This unevenness of growth requires the upgrading of the supply characteristics of those individuals entering the labour market each year in search of employment.

Household- and firm-level constraints on employment generation

Within the environment briefly sketched above of positive but wholly inadequate employment growth, this section intends to examine a series of microeconomic constraints are analysed as one subset of a much larger quantum of possible obstacles to long-term employment generation. A set of supply- and demand-side constraints that are existent at the household and firm levels in the domestic economy. The constraints on the supply side will focus on the degree to which the unemployed and the characteristics of the households they reside in may militate against any swift absorption into the labour market. The demand-side constraints will concentrate exclusively on the role of regulation in the labour market in possibly acting as a microeconomic constraint on long-term employment generation.

'Unemployed households' as a supply-side constraint

Within the context of a supply-side constraint to employment creation, it is clear that for the unemployed, their individual supply characteristics (most notably the level of human capital accumulation) remain critical to ensuring an improved probability of finding employment. In the South African context, the pattern of skills-biased employment shifts noted earlier, re-emphasises the relevance of these supply characteristics.

However, also important in terms of individual supply characteristics, is the nature of the households that the unemployed reside in. The role of labour market information networks, access to household income and human capital formation within the household are of relevance here in improving the probability of finding a job for resident unemployed individuals.

As a first cut on the nature of household attachment amongst the unemployed, in Table 14.3 the distribution of households by household expenditure category is illustrated, with those households with resident unemployed individuals isolated.[3] Specifically, the proportion of households in each category for the national sample, and then for the sample of households with one or more unemployed individuals resident is compared. Next, the ratio of households that have an unemployed individual resident, within each expenditure category is examined. Finally, the sample is switched from households to individuals, and the share of unemployed and employed individuals who are resident in households defined by their expenditure category is examined.

Table 14.3 Distribution of the unemployed across households, by household expenditure category

Monthly household expenditure category	All households	Unemployed households	Proportion of unemployed households	Share of unemployed individuals	Share of employed individuals
0–399	30.66	35.48	50.88	35.11	21.65
400–799	27.32	31.29	51.19	33.75	23.12
800–1 199	12.78	13.73	47.05	14.26	15.29
1 200–1 799	7.60	7.10	41.09	7.39	9.53
1 800–2 499	5.76	4.21	32.84	3.92	8.43
2 500–4 999	6.97	4.36	27.93	4.04	10.95
5 000–9 999	4.42	1.56	15.47	1.24	7.90
10 000+	1.64	0.35	9.33	0.30	3.13
Total	97.15	98.08	44.36	100.00	100.00

Source: StatsSA 2002, LFS, Sept and author's own calculations

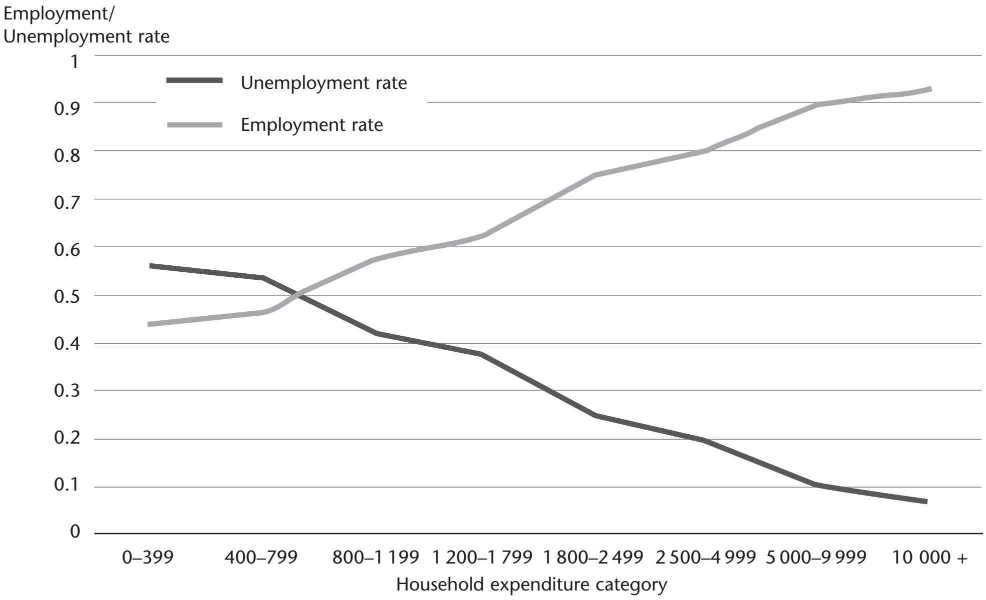
Note: (1) 'Unemployed households' refers to those households with one or more unemployed individuals resident, according to the expanded definition. (2) Data are based on the unweighted sample. (3) The first two data columns do not add up to 100, as a number of households either did not know their monthly expenditure (Code 8) or refused to answer the question (Code 9).

Firstly, the data make it plain that the majority of households reside in the bottom two expenditure categories of the income distribution. Hence, about 58 per cent of all households in the sample report household expenditure that is below R800 per month (in 2002 prices). In contrast, approximately 67 per cent of households with at least one unemployed individual resident were found in the bottom two expenditure categories. Put differently, 'unemployed households' are disproportionately represented, relative to the national sample, at the bottom end of the country's income distribution. This, as shown later, undoubtedly acts as a labour supply constraint on employment prospects for these individuals. If one examines the proportion of 'unemployed households' within each expenditure range, it is evident that the burden of supporting the unemployed rests with those households in the bottom half of the distribution. Between 9 per cent and 33 per cent of households with expenditure exceeding R1 799 per month are supporting the unemployed. In contrast, between 41 per cent and 51 per cent of all households earning less than R1 800 per month are supporting the unemployed.

If one attempts, perhaps more logically, to locate the distribution of unemployed and employed individuals across households, the maldistribution of income earners relative to zero earners is clear. For example, about 70 per cent of all the unemployed are resident in households within the two bottom expenditure ranges, whereas only 45 per cent of employed individuals reside within these vulnerable households. Clearly then, there is a gross mismatch between members of the labour force with a job and those without a job, in terms of the households that they are resident in.

Another, perhaps more vivid, manner in which to describe this skewed outcome is provided in Figure 14.1. The figure graphs the estimated mean unemployment and employment rates within each household expenditure category. Such a measure, of course, also controls for the size of the denominator, which may have influenced the share estimates in Table 14.3.

Figure 14.1 Estimated mean employment and unemployment rates by household expenditure category



Source: StatsSA 2002, LFS, Sept and author's own calculations
Note: (1) The unemployment rate is based on the expanded definition of unemployment.
(2) Standard errors and confidence intervals are available from the author upon request.

The figure is striking in terms of characterising how fewer opportunities in the labour market for individuals are also manifest at the household level, in terms of higher levels of vulnerability. Hence, the data in the figure show that the estimated mean unemployment rate is 56 per cent amongst households in the R0–399 category, declining monotonically to 7 per cent amongst households in the highest expenditure range. Conversely, employment rates are at their lowest in the R0–399 category, at 44 per cent, and increase to 93 per cent amongst households spending R10 000 or more per month. Interestingly, the national unemployment rate of 42.3 per cent is most closely matched by those households in the R800–1 199 expenditure range. While differential unemployment rates by individual characteristics such as race, gender and education level are common, the evidence suggests that the household characteristics – here defined purely in terms of monthly expenditure – are also a key variable in understanding the uneven distribution and experience of unemployment.

Before expanding in more detail on the specific set of labour supply constraints that the above data suggests, some of the individual and household characteristics that differentiate those vulnerable unemployed from the less vulnerable in this cohort are compared. Table 14.4 compares different characteristics of the unemployed in households earning less than R800 per month with those in households spending R800 or more per month. In effect, the former household expenditure cohort represents, as noted earlier, about 70 per cent of all the unemployed.

In terms of the individual characteristics of the unemployed across these two household types, there appears to be no significant mean age difference, as both household types report a mean age of about 30. The most powerful labour supply characteristic remains, of course, the individual's years of schooling. In the evidence presented here, the unemployed from the bottom end of the expenditure categories have, at the mean, the equivalent of a Grade 7 level of education. In contrast, the mean years of schooling for the remaining unemployed is the equivalent of Grade 10. This difference is significant at the 1 per cent level. Close inspection of the data, though, also reveals that nearly a third of all the unemployed in the richer households possess a matric, compared with 19 per cent of the unemployed in the bottom two expenditure category households. In trying to capture the racial and gender marker associated with the lowest probability of finding employment, the share of the unemployed who were African and female across these households was examined. The data illustrate that African females constitute a larger share (53 per cent as opposed to 46 per cent) of the unemployed cohort in households that are poorer.

The share of workers who are categorised as discouraged is an important indicator of the heterogeneity of unemployment across these household types. In the poorer households, 41 per cent of the unemployed individuals are those who would like to work but have given up searching for employment. In contrast, less than a third of the unemployed in richer households report being discouraged. It is important to remember, however, that 70 per cent of all the unemployed are resident in these poorer households. What this implies is that of the approximately 7.9 million individuals reported to be unemployed in September 2002, 4.8 million are resident in the two lowest household

Table 14.4 Individual and household characteristics of the unemployed by household expenditure category

Characteristics	Bottom two categories	Third to top categories
Individual		
Mean age	30.78	30.10
Mean years of schooling	9.13	11.01
Share African female	53.16	45.88
Share discouraged	40.60	31.88
Employment rate	45.23	71.04
Household		
Share rural	51.42	27.43
Mean years of schooling of EAP members	8.11	10.43
Sum of years of schooling of EAP members	17.93	28.00
Share of discouraged unemployed	73.23	26.77
Mean household size	3.11	3.77
Share with union members	6.88	34.91
Share with OAP recipients	24.12	20.29
Share with CSG recipients	14.84	10.78

Source: StatsSA 2002, LFS, Sept and author's own calculations

Note: (1) t-tests on the difference in mean years of schooling and age by the two household types were both significant at the 1 per cent level. In addition, for the household characteristics, the mean estimates for years of schooling of EAP members and mean household size were also significant at the 1 per cent level. (2) Data are based on the unweighted figures. (3) EAP = economically active population; OAP = Old Age Pension; CSG = Child Support Grant.

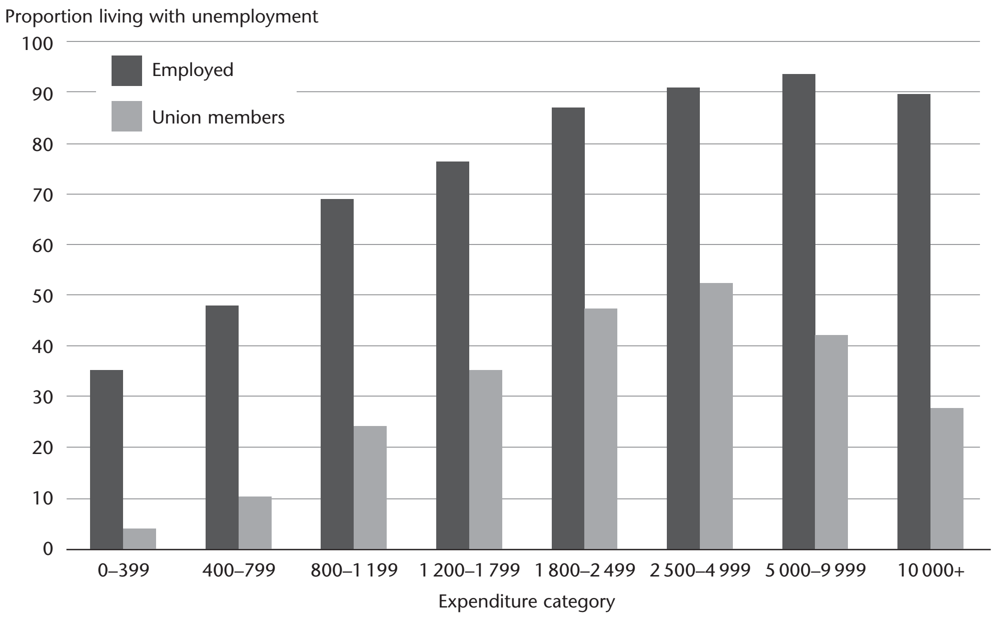
expenditure categories. In addition, of these 4.8 million unemployed in the expenditure-poor households, 2.2 million are discouraged. This compares with about 800 000 discouraged unemployed residents in the expenditure-rich households. While the significance of the discouraged work-seeker cohort is well known in South Africa, the evidence here suggests that it is very heavily concentrated amongst households that are at the bottom end of expenditure distribution.

In terms of the differing characteristics of the households that the unemployed are resident in, the spatial figures are telling. While 51 per cent of the bottom two expenditure category households are rural, only 27 per cent of the richer households where the unemployed reside are rural-based. This location effect would undoubtedly impact on the probability of finding employment amongst the unemployed in the poorer households. As a predictor for shared labour market information, the mean years of schooling and sum of years of schooling amongst labour force members in the household are also provided. Here, it is evident that even at the household level, human capital accumulation is significantly lower in poorer households. Interestingly, for the bottom two expenditure ranges, while the mean individual unemployed possess about 9.0 years of education, the mean at the household level is lower at 8.11. This also holds true for households further up the expenditure distribution.

The notion that the unemployed are supported by trade union members, as is frequently argued, is not borne out by the evidence garnered here. As the data show, about 35 per cent of households spending R800 per month or more have at least one union member resident. In turn, only 7 per cent of households spending below R800 per month report a union member present. Clearly then, the support offered by trade union members to the unemployed is dominant in middle to upper portions of the expenditure distribution. This is teased out somewhat in Figure 14.2, where the proportion of 'unemployed households' with at least one employed and one union member present, by all the expenditure categories is examined.

It is very clear, visually from Figure 14.2, that the distribution of union membership is skewed toward those households in the middle to upper segments of the expenditure distribution. Hence, we find that while 53 per cent of 'unemployed households' in the R2 500–4 999 expenditure range have a union member present, the figure for the R0–399 range is 4 per cent and for the R400–799 range, 10 per cent. In contrast, the bottom two expenditure categories show that between 35 per cent and 48 per cent of these households have an employed person present. Clearly then, the notion that the unemployed are being supported by union members is true for a much smaller proportion of the unemployed than those being supported by the non-unionised employed.

Figure 14.2 Unemployed households with employed or union members resident, by household expenditure category



Source: StatsSA 2002, LFS, Sept and author's own calculations

Note: (1) 'Unemployed households' refers to those households with one or more unemployed individuals resident, according to the expanded definition. (2) Data are based on the unweighted sample.

While this should not detract from the importance of union members to the unemployed, it is clear that their support is maldistributed toward the unemployed located in relatively better-off households.

Finally, the household characteristics in Table 14.4 also confirm the pro-poor, and in the parlance of this chapter, pro-unemployed nature of the existing grants system. Hence, we see that while 20 per cent of households from the third expenditure category upward have an OAP recipient present, the figure for the poorer unemployed households is 24 per cent. In addition, while 11 per cent of the richer unemployed households have a CSG recipient present, the figure for the bottom two expenditure categories is 15 per cent. Clearly, both these social grants are disproportionately targeted toward households at the bottom end of the expenditure distribution and by implication, then, serve as a vital source of income to the majority of the society's unemployed.

As a set of further constraints on labour supply and, hence, on improving the probability of finding employment, some of the assets and services the 'unemployed households' in the two expenditure categories own or have access to are briefly considered (see Table 14.5). This truncated list is representative, in data terms, of household entitlement deprivation, which would clearly make it even more challenging for the unemployed to seek employment. The data show, for example, that only 17 per cent of the households where 70 per cent of the unemployed reside have access to piped water in the dwelling, matched by 14 per cent with a flush toilet in the household. This contrasts with the smaller number of unemployed individuals in the higher expenditure category households, where at least half of the households have piped water or a flush toilet. Clearly, the relative deprivation or ease of access to a basic necessity would ultimately feed into an inability to undertake job-search activities.

Table 14.5 Public and private service access amongst unemployed households

Household service category	Bottom two categories	Third to top categories
Piped water in dwelling	16.94	52.62
Energy for lighting	66.46	88.65
Flush toilet	13.78	48.38
Telephone in dwelling	8.52	34.34
Hunger deprivation	68.44	38.06

Source: StatsSA 2002, LFS, Sept and author's own calculations

Note: (1) 'Unemployed households' refers to those households with one or more unemployed individuals resident, according to the expanded definition. (2) Data are based on the unweighted sample. (3) 'Hunger deprivation' refers to households reporting having 'problems satisfying their food needs seldom, sometimes, often or always'.

Access to lighting is much better represented within the bottom two expenditure categories, as at least two-thirds of these households have electricity for lighting purposes. The presence of a telephone in a dwelling remains a key component for an efficient search strategy and, indeed, to access networks outside of the household. Only 9 per cent of the poorer unemployed households have access to this form of communication compared with 34 per cent of the better-off unemployed households. All the same, across both unemployed household types, such an essential component of an effective labour market information tool is largely absent. Finally, the notion that household poverty traps are intrinsic to understanding the difficulty faced by the majority of the unemployed is manifest in the hunger deprivation figures. Here, we see that close to 70 per cent of the bottom two expenditure categories have experienced problems with satisfying nutritional needs, to differing degrees of intensity. This compares with 38 per cent of the better-off unemployed households. A household that often or sometimes faces the risk of hunger clearly disables the resident unemployed individual from engaging in any form of income-draining job-search behaviour.

Multivariate analysis

The above is clearly suggestive of a variety of different factors, captured here as potential labour supply constraints, operating at the household level, that may impact on measured unemployment levels and rates within the household. In what follows, an initial estimation, within a multivariate framework, of how these different variables may be predictive of a household's unemployment rate is attempted.

The equations estimated are based on the notion that:

$$u_h^* = f(X_h, S_h) \mid u_h^* > 0 \qquad (1)$$

where u_h^* is the household unemployment rate, viewed here as a function of a set of 'individual effects' within the household (X_h) and the household's access to a specific set of assets or services, S_h. Given that unemployed households only are considered, as with the earlier discussion, the estimation was set up on the basis that the household unemployment rate is greater than zero. In turn, note that:

$$u_h^* = \frac{\sum_{j=1}^{q} u_{jh}}{\left[\sum_{j=1}^{q} u_{jh} + \sum_{k=1}^{r} n_{jh}\right]} \qquad (2)$$

which simply reflects the fact that the number of unemployed within each household are summed and using, as the denominator, the number of economically active individuals within the given household, the household unemployment rate is derived. Based on the above then, the estimation equations are as follows:

$$u_h^* = \alpha + ß_1 \mathrm{EXPE}_h + ß_2 \mathrm{RURDUM}_h + ß_3 \mathrm{SCHOOL}_h + ß_4 \mathrm{AVAGE}_h + ß_5 \mathrm{HHSIZE}_h + ß_6 \mathrm{RACEDUM}_h + ß_7 \mathrm{GENDERD}_h + ß_8 \mathrm{OAPD}_h + ß_9 \mathrm{CSGD}_h + ß_{10} \mathrm{UNIOND}_h + \varepsilon_h \qquad (3)$$

$$u_h^* = \alpha + ß_1 EXPE_h + ß_2 RURDUM_h + ß_3 SCHOOL_h + ß_4 AVAGE_h + ß_5 HHSIZE_h + ß_6 RACEDUM_h + ß_7 GENDERD_h + ß_8 OAPD_h + ß_9 CSGD_h + ß_{10} UNIOND_h + ß_{11} PIPEDWD + ß_{12} ELECD + ß_{13} TOILED + ß_{14} TELED + ß_{15} HUNGERD + \varepsilon_h \quad (4)$$

where equation (3) is the restricted form, excluding all the household services and asset variables, and equation (4) in turn incorporates these variables, together with the hunger deprivation dummy. The results for these equations are in columns (1) and (2) in Table 14.6. Columns (3) and (4) exclude the expenditure variable.

Table 14.6 Determinants of the household unemployment rate

Dependent variable	**Household unemployment rate** (1)	(2)	(3)	(4)
Monthly household expenditure	–0.005 (–6.32)	–0.004 (–4.74)	–	–
Rural	0.010 (1.99)	0.010 (1.81)	0.012 (2.37)	0.010 (1.87)
EAP schooling years	–0.004 (–16.64)	–0.003 (–14.42)	–0.004 (–17.43)	–0.004 (–14.82)
Average age	–0.001 (–1.84)	–0.001 (–2.91)	–0.001 (–1.75)	–0.001 (–2.83)
Household size	–0.009 (–5.17)	–0.012 (–6.84)	–0.009 (–5.11)	–0.012 (–6.84)
Coloured	–0.080 (–9.86)	–0.067 (–7.92)	–0.084 (–10.41)	–0.068 (–8.09)
Asian	–0.066 (–3.92)	–0.039 (–2.29)	–0.074 (–4.42)	–0.042 (–2.45)
White	–0.081 (–5.82)	–0.053 (–3.60)	–0.096 (–6.96)	–0.060 (–4.13)
Female	0.084 (16.88)	0.083 (16.71)	0.085 (17.04)	0.083 (16.85)
OAP present	0.082 (8.08)	0.087 (8.70)	0.081 (8.02)	0.087 (8.69)
CSG present	0.017 (2.48)	0.011 (1.62)	0.018 (2.60)	0.012 (1.67)
Union member	–0.176 (–27.24)	–0.161 (–24.76)	–0.181 (–28.20)	–0.163 (–25.27)
No piped water		0.010 (1.13)		0.011 (1.21)
No electricity for lighting		–0.004 (–0.68)		–0.003 (–0.59)
No flush toilet		–0.002 (–0.17)		0.001 (0.08)
No telephone		0.000 (0.02)		0.002 (0.33)
Seldom hungry		0.046 (5.80)		0.048 (5.94)
Sometimes hungry		0.056 (9.69)		0.057 (10.00)
Often hungry		0.076 (9.02)		0.079 (9.29)
Always hungry		0.120 (12.30)		0.122 (12.52)
R-Squared	0.2739	0.2925	0.2706	0.2907
F-Statistic	224.31	153.49	236.45	158.80

Note: (1) Number of observations is 8 936 for all equations except the last, where n = 21 412.
(2) The t-statistics are in parenthesis.
(3) Data are unweighted, and based on the expanded definition of unemployment.
(4) The referent for the hunger variable is 'never hungry'.

The results for the 'individual effects' at the household level corroborate much of the descriptive evidence garnered. Hence, we see in both equations (1) and (2) that monthly household expenditure is negatively related to the household unemployment rate. Put differently, the higher the household expenditure, the lower the matching unemployment rate. The location dummy confirms the evidence around locational constraints, as rural-based households are associated with higher unemployment rates relative to urban households. In turn, the human capital variable illustrates that the greater the sum of schooling years amongst labour force members of the household, the lower the recorded household unemployment rate. This variable is significant and negative across all four specifications.

The average age within the household is negatively related to the household unemployment rate. Put differently, the higher the average household age, the lower the recorded unemployment rate within the sample of 'unemployed households'. This reflects the strong youthful dimension of unemployment, which is a well-known feature of South Africa's unemployment patterns. The race variable refers to the race of the household head, where the referent is an African-headed-household. The evidence, as one would expect, shows very clearly that non-African headed households yield a lower household unemployment rate relative to African-headed households. The regressions for (1) and (2) were run for African-headed households only, with very similar results being reported, with all the same signs and significance levels on the coefficients. In terms of gender, it is evident that female-headed households have a higher household unemployment rate than male-headed households, across all four specifications.

The last three individual effect variables are particularly interesting, and possibly the most pertinent in the context of this chapter. It is clear that the coefficient on both social grant dummies (where no recipient of an OAP or CSG is present) is significant and positive. This implies, critically, that the presence of an OAP or CSG recipient is associated with a higher household unemployment rate. Put differently, these grants appear to be reaching higher unemployment rate households and, by implication, poorer households as well. In contrast, however, the union dummy is negative and significant for all specifications of the model. Hence, the presence of a union member is associated with a lower household unemployment rate. Union membership is biased toward a lower unemployment rate and, therefore, better-off households.

The household asset and services variables include whether a household has access to piped water in the dwelling, electricity for lighting, a flush toilet within the household and finally a telephone within the dwelling. The coefficients on all these variables for both equations (2) and (4) are not significant. Hence, these assets and services are not strongly associated with a given household unemployment rate. This suggests that when controlling for household expenditure levels, the household unemployment rate is not closely related to the degree of asset and service vulnerability within the dwelling. However, the hunger deprivation variable is significant. The results suggest that an 'unemployed household' reporting being hungry seldom, sometimes, often or always is likely to yield a higher household unemployment rate relative to those 'unemployed households' that never have a hunger problem. This, of course, reinforces the notion that budget-constrained households are very likely to be trying to meet their basic needs, so making it even less likely that the resident jobless will have the resources to search for employment.

The preceeding descriptive and econometric evidence has attempted, in a variety of different ways, to reflect on the set of household-level constraints that may be faced by the majority of the economy's unemployed. Firstly, it is evident that the majority of the unemployed – 70 per cent of the eight million jobless – are in severely deprived households, where expenditure levels are below R800 per month. This serves as a vital impediment to improving employment probabilities. The cost of consistent and effective job searching is immediately undermined in households with scarce resources. The fact that half of these poorer 'unemployed households' are in rural areas only adds to the cost of job search and, indeed, reduces the probability of finding employment in these areas of low economic activity. This labour supply constraint is not only operative for the bottom expenditure categories, as a fair number of the unemployed in richer households also face this spatial labour market constraint. The large numbers of discouraged work-seekers in the bottom two expenditure categories are reflective of the outcomes that these labour supply constraints have created.

In terms of another potential route to finding employment, namely accessing the information and knowledge networks of employed individuals in the household, the employment rate and union membership data are striking. Here it is clear that the minority of the unemployed (those resident in the richer set of households) would have some probability of accessing job opportunities through this information network, given that the employed and union members are disproportionately represented in these households. For a large segment of the 4.8 million unemployed at the bottom end of the expenditure distribution, however, such information and knowledge networks are rarely available. Thus, probably one of the most effective and costless mechanisms for finding employment is not present for many of these individuals. Ultimately, then, the combination of being search-, mobility- and information-constrained, intermediated through living in vulnerable households, represents a severe labour supply obstacle to improving the probability of finding a job for the majority of the domestic economy's unemployed.

The labour regulatory environment as a demand-side constraint

It is clear from the introductory analysis on employment trends that the South African labour market cannot be said, with any degree of certainty, to have experienced jobless growth since 1995. However, it is also evident that this debate, in the context of the society's long-term welfare, is secondary to the fact that a poor labour absorptive capacity born out of tepid growth rates lies at the heart of the extraordinary unemployment levels present in South Africa. In this context, attention has begun to shift toward possible interventions that could substantially raise South Africa's inadequate single-digit growth rates. This remains within the view that economic growth is a necessary, but not sufficient, condition to maximising employment creation in the domestic economy. The constraints on growth on the demand side of the economy range from issues of concentration levels and volatility in the exchange rate accessing credit for entrepreneurs.[4] The intention in this section is to focus on one of these constraints, namely the view that significant regulatory rigidity exists in the labour market. Hence, an attempt is made here to relate the evidence that is available on the sensitivity of the legislation governing employment to the empirical reality of a labour-surplus economy. An overview of this sort cannot even begin to do justice to this potentially vast question. What is done here, though, is to garner at least some initial primary and some secondary evidence reflecting on whether laws governing employer–employee relations in the South African labour market may or may not be inimical to long-run employment growth and, consequently, serve as micro-level labour demand constraints.

Employers' perceptions of the labour legislative regime

The obvious starting point would be to try and assess what employers' views are on the labour legislation that governs their hiring and firing of workers. Detailed employer surveys on this sort of issue are scarce for South Africa. Indeed, firm surveys in general (outside of those undertaken for the National Accounts) are notably absent for South Africa. We are forced, therefore, to rely on two of the very few such firm surveys, namely the World Bank Large Manufacturing Firm Survey (WBLMS) (World Bank 1999) and the National Enterprise Survey (NES) run under the auspices of the President's Office of South Africa (Office of the President 1999).

The WBLMS was conducted under the joint auspices of the City of Greater Johannesburg and the World Bank. The survey firm contracted to undertake the task was the Bureau for Market Research. The survey went into the field in 1999, and 325 firms within the manufacturing sector in the Greater Johannesburg Area (GJA) were surveyed. The sampling design ensured that eight manufacturing subsectors were represented. The survey was then further stratified by employment size, namely small (50–99 workers), medium (100–199 workers) and large (200+ workers). Stratification by employment size within the different subsectors was accordingly proportional to size. Finally, within these multi-strata, simple random sampling was performed. The survey team started from a national census of 6 174 manufacturing firms, broken down by subsector and size class. This was then used to create a sample frame of 2 346 such firms within the GJA. On the basis of the latter number, 369 firms were actually approached, with 325 full responses obtained (the sample sizes in the tables that follow reflect that some firms may not have responded to the specific question in the survey, so lowering the response number to less than 325).

The NES was designed to give a nationally representative profile of large manufacturing and service enterprises. In total, 1 428 firms constituted the survey sample: 75 per cent of the firms were classified as service enterprises, and the remaining quarter were designated as manufacturing enterprises. Four distinct questionnaires were deployed in the study. The questionnaires extracted information on large service firms, large manufacturing firms, small service firms and small manufacturing firms, respectively. Data from all four were merged into one database.

Based on the evidence of these two surveys, then, some consideration is given now to whether domestic firms in the manufacturing and services sectors do perceive labour regulatory environment as a constraint on output expansion.

Results from the WBLMS and NES

There are a few key questions in the WBLMS that attempt to garner information from employers on the labour legislative environment. The first of these is presented in Table 14.7, differentiated according to the three size classes for the different manufacturing firms in the GJA. Employers were asked what they thought the impact of Bargaining Council agreements (including the extension to non-parties clause) was on employment levels within their firms. Did employers view the formalised bargaining environment as a key consideration in their hiring decisions?

Table 14.7 The impact of Bargaining Council agreements on employment (percentage shares)

Impact	Small (50–99)	Medium (100–199)	Large (200+)	Total
Increases	3.50	2.30	6.52	4.04
Declines	26.57	16.09	16.30	20.81
No effect	55.94	70.11	60.87	61.18
Not applicable	13.99	11.49	16.30	13.98
Total	100.00	100.00	100.00	100.00
Sample size	143	87	92	322

Source: World Bank (1999) and author's own calculations

For the sample as a whole, 61 per cent of firms viewed Bargaining Council agreements and their extensions as having no effect on firm employment levels. Notably, however, these figures are differentiated by size class. Hence, we find that while about 16 per cent of medium and large firms viewed Bargaining Council agreements as inimical to employment growth, this figure for small firms was 27 per cent. Clearly, then, smaller firms in this sample tended to view Bargaining Council agreements (and the extension to non-parties clause) as relatively more detrimental to employment growth than larger manufacturing firms in the GJA. While this is an admittedly small sample of firms within only one main sector, the evidence is a starting point in understanding the relationship between the industrial relations environment and employment levels in the South African economy. In the main, on the basis of this limited evidence, it would appear that employers do not view their formalised bargaining arrangements as inimical to employment growth. Having noted this, however, the proportion of firms that view the Bargaining Councils as a hindrance to employment expansion is not insignificant and is biased toward smaller employers.

A follow-up question in the survey asked firms to reflect on the effect of specific labour legislation on intra-firm employment levels. The two more important pieces of legislation, the Basic Conditions of Employment Act (BCEA) and the Labour Relations Act (LRA) are reported on here.[5] The results, again as constrictive as they are due to the sample size and sector focus, are revealing (see Table 14.8). It would appear that, as with the Bargaining Councils question, the majority of firms view the LRA as having no effect on their employment levels. Specifically, of the 325 firms who responded to this question, 214 (66 per cent) answered that the LRA had no effect on their hiring and firing decisions. Having said that, 87 firms (27 per cent of the sample) did view the LRA's provisions as a constraint on hiring or firing decisions within the firm, and this was accentuated for firms with 200 or more workers. Close to 30 per cent of the sample of large firms saw the LRA as resulting in a decline in employment levels.

Table 14.8 The impact of the LRA and BCEA on employment levels, by proportion of firms

Impact	Small (50–99)	Medium (100–199)	Large (200+)	Total
Labour Relations Act				
Increases	1.38	2.27	4.35	2.46
Declines	26.21	25.00	29.35	26.77
No effect	64.14	70.45	64.13	65.85
Sample size	145	88	92	325
Basic Conditions of Employment Act				
Increases	2.08	4.55	3.26	3.09
Declines	20.14	21.59	22.83	21.30
No effect	69.44	72.73	69.57	70.37
Sample size	144	88	92	324

Source: World Bank (1999) and author's own calculations

In terms of the BCEA, the results are stronger: 70 per cent of manufacturing firms (or 228 in the sample) felt that the Act had no effect on employment levels within the firm. A core group of firms, though, 21 per cent of the sample, did still view the BCEA as a constraint on employment expansion, although there remained little differentiation by size class. The stronger results for the BCEA are to be expected, given that we are sampling formal manufacturing firms where adherence to a basic floor of rights and conditions for workers would not be seen as too rigid or too cumbersome to implement.

Table 14.9 reports the results from a question in the WBLMS survey that tries to gauge responses by firms to specific clauses within the labour regulatory regime, as it existed in 1998. While this is clearly outdated, there are no more recent surveys delving into these issues. The categorised responses are those provided in the questionnaire, and the table shows the proportion of firms responding positively to each of the categories. For example, 36 per cent of firms in the sample as a whole, reported that the recent regulatory environment had caused them to hire fewer workers.

Table 14.9 Reported responses to impact of labour regulations, by category

Response	Small (50–99)	Medium (100–199)	Large (200+)	Total
Hire fewer workers	39.58	34.48	31.87	36.02
Labour substitution	33.57	31.82	40.66	35.09
Casualisation	38.03	38.64	38.46	38.32
Subcontracting	23.08	35.23	36.67	30.22
Improved labour relations	23.24	26.44	22.47	23.90
Increase in labour productivity	10.56	12.50	4.55	9.43
Sample size	143	88	99	322

Source: World Bank (1999) and author's own calculations

Note: The formal question on which the above is based is: 'In 1998, as a result of recent labour laws and regulations, did this establishment experience any of the following…'

Overall, the results suggest that between 30 per cent and 40 per cent of the sample of firms indicated that the labour regulatory environment would result in responses ranging from hiring fewer workers and labour substitution to increased reliance on atypical forms of employment, marked by casualisation and outsourcing. Specifically, it would appear that smaller firms with fewer than 100 workers are relatively more likely to discourage new hires, while larger firms with 200 or more employees are more likely to opt for greater levels of capital intensity. In turn, outsourcing is seen as more of an option for firms with 100 or more workers, and less so for smaller manufacturing concerns. Notably, for the sample as a whole, the most prominent response amongst firms is to opt for greater levels of casualisation. A much smaller proportion of firms thought that the regulations bolstered productivity. However, close to one-quarter of the sample of firms did feel that the legislation resulted in a more stable industrial relations environment.

The data from the NES reveal a slightly more tempered response amongst both manufacturing and service firms to the labour regulatory environment (see Table 14.10). In terms of manufacturing firms for the sample as a whole, while one in five firms did see the regulations as impacting negatively on employment, the same proportion of firms viewed the labour regulations as having no effect on their labour demand patterns. The most prominent response here was for firms to increase their outsourcing and subcontracting. What is interesting about these data is that there does not appear to be a significant difference in the responses by the given size classes in terms of the perceived employment effect – which is in contrast to the WBLMS results. It is noteworthy that within the NES data, relative to the WBLMS results, it appears that smaller manufacturing firms are also more likely to opt for atypical forms of employment.

Table 14.10 Most significant responses to labour regulations

Response	Small (50–99)	Medium (100–199)	Large (200+)	Total
Manufacturing				
Reduced workforce	21.11	18.18	21.62	20.74
Labour substitution	18.89	24.68	17.84	19.60
Replaced full-time with part-time workers	5.56	0.00	4.32	3.69
Replaced permanent with temporary workers	8.89	7.79	3.78	5.97
Increased outsourcing and subcontracting	22.22	27.27	26.49	25.57
Other	2.22	6.49	3.24	3.69
No significant response	21.11	15.58	22.7	20.74
Total (n)	100 (90)	100 (77)	100 (185)	100 (352)
Services				
Reduced workforce	22.95	2.66	40.35	28.99
Labour substitution	1.23	30.32	10.62	12.04
Replaced full-time with part-time workers	0.82	0.00	0.71	0.60
Replaced permanent with temporary workers	0.82	30.32	0.88	6.42
Increased outsourcing and subcontracting	48.77	31.91	22.12	30.49
Other	0.00	0.53	1.24	0.80
No significant response	25.41	4.26	24.07	20.66
Total (n)	100 (244)	100 (188)	100 (565)	100 (997)

Source: Office of the President, (1999) and author's own calculations

Note: There were 26 firms reporting an employment size of less than 50 workers. The smallest firms had 36 workers, while two firms did not provide employment figures.

For services firms, the results indicate slightly more skewed responses. Hence, while 21 per cent of all services firms do not see any significant labour demand response to the regulatory environment, about 30 per cent of the sample responded that they would either reduce employment or increase outsourcing and subcontracting. This is a higher proportion than was the case for manufacturing firms. In turn, the results by size class show that close to half of the services firms employing less than 99 workers would in fact opt to outsource or subcontract. In contrast, for the 200+ employee services firms, 40 per cent were likely to reduce employment as a consequence of the regulatory environment.

At first glance, these results appear to suggest that, to varying degrees, manufacturing firms within the GJA and manufacturing and services firms nationally (from the NES data) would respond negatively to the regulatory environment. Specifically, the options of constricting employment, subcontracting and outsourcing, and to some extent labour substitution, appear as the most important possible responses to the industrial relations environment and its appended legislative parameters. While there is a core of employers who view the current environment as good for industrial relations or fairly benign in terms of labour demand effects, the results are broadly suggestive of a legislative environment that may, in the view of employers, not be optimal in terms of maximising job creation.

In trying to tease out this notion of flexibility in the labour market, and the extent to which firms experience these micro-level labour demand constraints, Table 14.11 estimates the cost of retrenchment by size class and occupation. Retrenchment costs are defined as those costs associated with negotiation expenses, severance pay, court cases, and so on. The table presents data from the WBLMS on the mean retrenchment costs, and these costs as a proportion of the mean monthly wage.

Table 14.11 An estimation of retrenchment costs, by occupation

Occupation	**Small (50–99)**	**Medium (100–199)**	**Large (200+)**
Mean retrenchment costs			
Manager	8 659.36	10 939.32	35 062.28
Professional/Technical	7 169.44	6 791.52	19 993.98
Clerical	7 153.86	6 093.75	20 472.98
Service	7 164.75	5 504.52	15 980.38
Craft	6 925.70	5 064.81	6 532.45
Operator	7 024.70	6 954.97	10 693.46
Labourer	7 555.23	10 295.13	12 579.67
Manager/Labourer ratio	1.15	1.06	2.79
Proportion of monthly mean wage			
Manager	0.91	1.02	0.82
Professional/Technical	0.89	0.42	0.64
Clerical	1.75	1.07	1.69
Service	1.20	0.84	1.24
Craft	1.57	0.87	1.18
Operator	2.48	2.11	2.39
Labourer	3.79	5.68	3.62

Source: World Bank (1999) and author's own calculations

Note: (1) For the 'Operator' occupation, an outlier measure of R1.1 million, and for the 'Service' occupation an outlier of R800 000 for the estimated retrenchment costs were removed. (2) Standard errors and confidence intervals available from the author upon request.

The data for this sample of manufacturing firms in the GJA are instructive on a number of counts. Firstly, while retrenchment costs, in absolute terms, are highest amongst managers across all size classes, the lowest retrenchment costs are in fact not for labourers. Hence, we see from the data that for the small firms, craft workers and machine operators yield the lowest retrenchment costs. For medium and large firms, the lowest dismissal costs are for craft workers. Despite this, however, the ratio of manager- to-labourer dismissal costs does show that managers are more expensive to dismiss than labourers. Furthermore, in the large firms, the gap is greatest, as it costs almost three times more to fire a manager as opposed to a labourer. Of course, a more accurate representation of relative dismissal costs is to examine these figures as a proportion of the mean wage paid by the relevant firms. Here the data are very revealing. They suggest that while managers incur dismissal costs close to their mean monthly wage, labourers and operators incur dismissal costs that are between two and three times their mean wage. Put differently, the data provisionally suggest that labourers and machine operators, for this admittedly restrictive sample, are more costly to dismiss than managers and other professional staff, in relative terms.

While the NES dataset does not have wage and retrenchment cost data, a parallel set of questions in the dataset allows for some comparison with the WBLMS results. The questions ask firms what they thought the impact of specific areas of labour legislation would be on employment expansion and, in the second instance, on production costs. Table 14.12 shows the results in terms of the share of firms that responded that the specific area of the legislation would be a 'moderate obstacle' or 'serious obstacle' to either employment creation or production costs.

The evidence is broadly supportive of the estimates provided earlier. Hence, both manufacturing and services firms view legislated firing or dismissal procedures as probably the most significant area within the regulations that act as obstacles to employment expansion or reduced production costs. For the sample as a whole, 77 per cent of manufacturing firms and 81 per cent of services firms viewed the provisions around firing or dismissal procedures as either a serious or a moderate obstacle to employment expansion. This compares with 65 per cent and 53 per cent of these employers who viewed hiring procedures as detrimental to employment growth. In turn, for the impact on production costs, about 70 per cent of manufacturing and services firms in the sample viewed dismissal procedures as problematic to their internal cost structures. Hiring procedures and even working time were viewed as less detrimental to costs.

In the case of manufacturing firms, it was firms with less than 100 workers, that were most negative about these dismissal procedures; 85 per cent of these firms viewed the regulations as inimical to employment expansion. For services firms, it appears that medium firms were dominant in their rejection of the specific dismissal clauses. While this result held for services firms in relation to production costs, for manufacturing firms both small and medium firms were strong in their rejection of these areas of labour legislation.

There are two caveats to the above arguments. Firstly, it is true that we are measuring, particularly in the case of NES data, firms' perceptions around labour legislation, rather than their deliberate actions in the face of the legislation. It would have been good to

Table 14.12 Impact of labour regulations on employment expansion and production costs

Regulation	Small (50–99)	Medium (100–199)	Large (200+)	Total
Impact on employment expansion				
Manufacturing				
Hiring procedures	61.29	62.50	68.25	65.40
Firing or dismissal procedures	84.95	73.75	74.07	76.57
Working time	53.76	55.00	50.26	52.59
Leave provision	36.56	25.00	30.69	31.06
Rights to collective action	51.61	42.50	39.68	43.87
Affirmative action provisions	72.04	55.00	60.32	61.85
Services				
Hiring procedures	60.47	34.21	55.44	53.06
Firing or dismissal procedures	79.40	96.32	76.49	80.87
Working time	57.48	3.16	73.16	56.17
Leave provision	18.60	1.58	42.28	28.28
Rights to collective action	39.20	63.68	62.28	55.98
Affirmative action provisions	97.01	64.21	54.91	68.52
Impact on production costs				
Manufacturing				
Hiring procedures	50.54	52.50	52.91	52.04
Firing or dismissal procedures	69.89	70.00	65.61	67.57
Working time	65.59	70.00	60.32	63.76
Leave provision	48.39	42.50	42.86	43.87
Rights to collective action	43.01	42.50	41.27	42.23
Affirmative action provisions	64.52	52.50	57.14	57.49
Services				
Hiring procedures	77.74	92.63	44.21	62.39
Firing or dismissal procedures	41.86	94.21	75.26	69.18
Working time	40.20	93.16	74.21	67.95
Leave provision	38.54	62.11	62.63	55.70
Rights to collective action	38.21	61.05	52.63	50.05
Affirmative action provisions	58.47	93.68	45.96	58.06

Source: Office of the President (1999) and author's own calculations

Note: (1) The table reflects the share reporting a specific regulation as a 'serious' or 'moderate' obstacle. (2) The sample size for the services firms was between 946 and 1001 firms, depending on the specific sub-question. In the case of manufacturing firms, the sample ranged from 352 to 361 firms. (3) There were 26 firms reporting an employment size of less than 50 workers. The smallest firms had 36 workers while two firms did not provide employment figures.

have compared actual employment changes in the period from 1998 onwards to establish whether firms in fact did reduce employment or experience higher production costs as a result of the dismissal and other clauses. Such comparative data, however, do not exist. Yet, it must be borne in mind that, in and of themselves, firms' perceptions around the legislation can and often do have real effects in terms of labour market outcomes. A second concern around this data is that they do not cover the period after 1998, when significant amendments to the LRA and other labour legislation occurred. In the case of dismissals, the amendments to the LRA in 2002 would appear to have induced greater levels of consultation and consensus seeking amongst the bargaining parties. This, it has been argued, has resulted in a set of retrenchment clauses that, on balance, favour employees (Godfrey & Theron 2004) and, in fact, may have increased the opportunity cost and financial cost of dismissing workers.

The evidence may begin to isolate one possible source of the notion that the labour market is inflexible – implicitly moving away from concerns around wage rates and levels. The above data, therefore, provide tentative evidence that the financial costs associated with dismissals within the country's industrial relations environment may ultimately be antithetical to employment expansion and reduced production costs. Importantly, these costs may be incurred in areas that do not financially benefit the individual and, indeed, may be a reflection of the perceived procedural and other inefficiencies that exist in the industrial relations environment.

Conclusion

Within a context of perceptions that the post-apartheid labour market has experienced 'jobless growth', it has ben argued, through the use of data for the period 1995–2002, that this notion is erroneous. Instead, the labour market since 1995 appears to have yielded positive employment growth rates but, importantly, these remain grossly insufficient to generate employment for all work-seekers in the economy. Accompanying this result is the continued evidence of skills-biased employment shifts for the domestic economy, placing a further burden on the ability of the economy to match labour demand trends with appropriately qualified individuals.

The second part of the chapter showed that, in terms of both labour supply and labour demand, there exist significant microeconomic constraints, operating at the level of the household and firm, which remain a constraint on employment creation. The labour supply evidence makes it clear that 70 per cent of the broadly unemployed reside in households that are in the bottom two expenditure categories of the distribution. These 'unemployed households' lack the resources to fund job-search activities, as household budgets are often utilised for meeting basic needs. In effect, the data are a reflection of how the presence of household poverty traps results in a constraint on unemployed individuals' search for employment.

In addition, it is clear that the role of information and knowledge networks (overlaid by spatial location) was severely undermined for this 70 per cent of the unemployed, as the employed and union members were predominantly located in the middle-to-upper end of the expenditure distribution.

Finally, it is clear that the 'pro-poor' orientation of the social grants has a labour market variant, in that both the OAP and the CSG were shown to be biased toward the unemployed resident in the poorest households in the society. Matching this composite set of constraints on 'unemployed households', it is also clear that firms report facing labour demand constraints operating within the labour regulatory environment. Specifically, manufacturing firms in the GJA and manufacturing and service firms nationally report very strongly on the fact that dismissal clauses within the LRA are inimical to both employment creation and the reduction of their internal production costs. This evidence is perhaps most powerfully displayed in the retrenchment cost data, which show that the dismissal cost for labourers within manufacturing firms in the GJA stands at three times the mean wage of these workers.

Therefore, the combination of firms' difficulties with retrenchment procedures and other legislative provisions, and the majority of the unemployed being resident in severely deprived households, suggests that microeconomic constraints on employment creation must feature in policy interventions designed to overcome the country's current unemployment crisis.

Notes

1 For a historical account of these shifts and their impact on the South African labour market, see Bhorat & Hodge (1999), Bhorat (2000) and Edwards (2001).

2 The poor coverage of the informal sector in the October Household Survey for 1995 makes this comparison of formal versus informal sector employment growth very difficult. However, there would seem to be indicative evidence that both organic growth in informal employment and better capturing by Statistics South Africa have yielded a rapid expansion in informal employment.

3 The expenditure categories defined in the table are those provided in the Labour Force Survey questionnaire, with no question present on point estimates of household income or expenditure.

4 A more detailed overview of these constraints on long-term economic growth can be found in Bhorat & Cassim (2004)

5 The employment effects of the Skills Development Act and the Employment Equity Act were also raised in the survey, although as expected the overwhelming majority of firms viewed these laws as having no effect on employment levels.

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15 Definitions, data and the informal economy in South Africa: a critical analysis

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Introduction

In post-apartheid South Africa there has been an intense debate about the extent of employment and unemployment. Much of this debate is related to the impact of government policy – whether the effects of policy have resulted in higher levels of employment or not. Three issues relevant to this chapter have characterised this debate. First, interest groups have selectively manipulated some of the data to support their own policy objectives. Second, it is apparent that questions may be asked about whether or not the labour market data in South Africa are a reliable estimate of actual developments in employment and unemployment. Third, the trend in employment in the informal economy and the reliability of this trend may determine whether or not employment is rising. This chapter is concerned primarily with addressing the reliability or otherwise of data on informal employment in South Africa in the post-apartheid period.

This chapter is divided into two sections. We begin by outlining basic labour market data in South Africa, and examine the controversies surrounding informal economy employment data. We show that estimates of the level of informal economy employment in South Africa are highly variable. We then outline how estimates of informal employment are derived by Statistics South Africa (StatsSA) and explore why these estimates are so variable, and investigate certain inconsistencies in the data. We end the first section of the chapter, after having examined the controversies associated with the extent of informal economy employment, by concluding that we are unsure of the precise level and extent of informal employment in South Africa. As such, any policy discussions on employment, and more specifically on informal employment, should be conducted with caution.

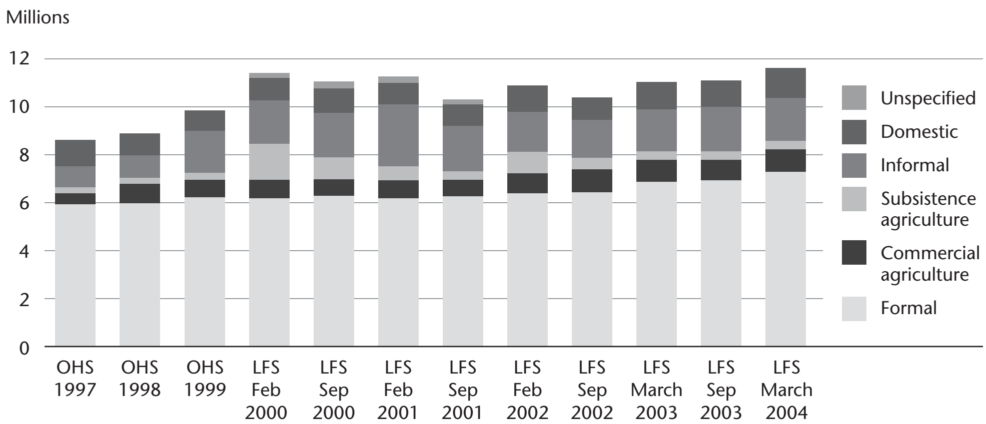
The second section of the chapter discusses the difficulties of defining informal work and explores whether the distinction that is drawn between formal and informal employment is a realistic one in the South African setting. This leads us to a discussion of whether the enterprise-based definition of informal work currently employed in South Africa is appropriate for classifying workers. Using indicators that measure characteristics of the enterprise and the worker, we show that significant proportions of workers classified as informal display characteristics of formal work. We then draw attention to research demonstrating that an increasing number of formal jobs are characterised by conditions that are typical of informal work. Thus, we argue that a definition based on work characteristics, rather than an enterprise-based definition, may be a more appropriate method for classifying workers.

The nature of the problem

Table 15.1 shows employment data for the national economy over the period 1997–2004,[1] using the various October Household Surveys (OHS) and the more recent Labour Force Surveys (LFS) as reported by StatsSA.[2]

Although total employment has fluctuated significantly, employment in the formal non-agriculture segment of the economy has remained relatively stable over the period (see Figure 15.1). We notice marked change in two sectors of the economy – subsistence agriculture and the informal economy. Although the volatile employment data for subsistence agriculture are clearly an important issue in respect of the reliability of overall employment data in South Africa, we do not explore these data further. The international norm is that subsistence agriculture is excluded from definitions of informal work. The dynamics in subsistence agriculture are complex, and the area would require a paper of its own.[3]

Figure 15.1 Total employment in South Africa, 1997–2004



Source: Authors' calculations from StatsSA, various OHS and LFS

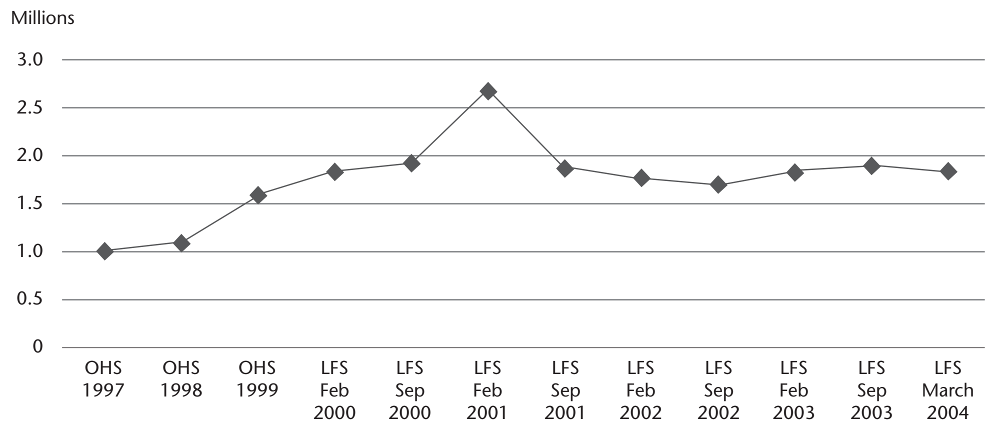
Figure 15.2 shows the employment trend for the informal economy. With respect to informal employment, the data show a tremendous growth in employment with the number of workers employed in the informal economy more than doubling over the period 1997 to February 2001, then declining rapidly by almost one million workers over the period February 2001 to February 2002 and then levelling out again. Is this pattern of employment in the informal economy really possible?

Table 15.1 Formal and informal economy labour market trends, 1997–2004

	OHS 1997	OHS 1998	OHS 1999	LFS Feb 2000	LFS Sep 2000	LFS Feb 2001	LFS Sep 2001	LFS Feb 2002	LFS Sep 2002	LFS March 2003	LFS Sep 2003	LFS March 2004
Formal	6 405 953	6 527 120	6 812 647	6 677 923	6 841 877	6 678 219	6 872 924	7 036 020	7 033 940	7 357 757	7 460 398	7 827 251
Commercial agriculture	495 530	726 249	804 034	756 984	666 940	698 879	665 941	734 484	810 998	865 268	831 893	929 759
Subsistence agriculture	163 422	202 290	286 856	1 508 264	964 837	653 428	358 983	792 247	520 259	419 611	350 384	337 136
Informal	*965 669*	*1 077 017*	*1 573 986*	*1 820 350*	*1 933 675*	*2 665 227*	*1 873 136*	*1 766 985*	*1 702 415*	*1 845 033*	*1 899 114*	*1 833 612*
Domestic work	992 341	749 303	798 524	1 001 108	999 438	914 478	915 831	971 686	875 255	1 004 588	1 022 921	1 013 150
Unspecified	70 986	107 966	92 905	115 106	305 797	227 013	146 000	91 162	85 841	72 918	57 534	43 588
Total employed	9 093 901	9 389 946	10 368 951	11 879 734	11 712 565	11 837 244	10 832 816	11 392 583	11 028 708	11 565 175	11 622 245	11 984 496
Unemployed	2 450 738	3 162 662	3 157 605	4 333 104	4 082 248	4 240 034	4 525 309	4 737 902	4 837 493	5 249 509	4 570 566	4 611 101
Not eco. active	13 960 772	13 156 940	12 752 967	10 241 611	11 100 135	11 043 527	12 006 413	11 542 594	12 118 060	12 740 069	13 724 114	13 833 483
Total not employed	16 411 510	16 319 602	15 910 572	14 574 715	15 182 383	15 283 561	16 531 722	16 280 497	16 955 553	17 989 577	18 294 679	18 444 584
Total pop. (age 15–65)	25 505 411	25 709 548	26 279 523	26 454 449	26 894 948	27 120 805	27 364 538	27 673 080	27 984 260	29 554 752	29 916 924	30 429 081

Source: Authors' calculations from StatsSA various, OHS and LFS

Figure 15.2 Informal employment in South Africa, 1997–2004



Source: Authors' calculations from StatsSA, various OHS and LFS

Defining formal and informal workers in the LFS

For statistical purposes, the accepted international standard for defining the informal economy was agreed in a resolution at the 15th International Conference for Labour Statistics (ICLS). An important criterion of the ICLS definition is that employment in the informal economy is based on the characteristics of the enterprise in which the person is employed, instead of the characteristics of the worker employed. The ICLS definition recommends that informal sector enterprises be defined in terms of one or more of the following criteria:

- N on-registration of the enterprise in terms of national legislation such as taxation or other commercial legislation;
- N on-registration of employees of the enterprise in terms of labour legislation;
- S mall size of the enterprise in terms of the numbers of people employed.

StatsSA (2002a: xii) uses the enterprise definition, as above, to define an individual as an informal worker in the LFS: 'The informal sector consists of those businesses that are unregistered.' The LFS includes two questions that can be used to measure registration, and a self-classification question to establish if a respondent is a formal or informal worker.[4] In determining whether the worker is informal, this self-categorisation question is used. There are some inconsistencies in the responses to these questions, which are shown in Table 15.2.

As can be seen from Table 15.2, the majority of formal enterprises were registered as a company or close corporation (83.6 per cent) and/or were registered value-added tax (VAT) vendors (79.7 per cent) in September 2001. In contrast, extremely low proportions of informal economy businesses were registered. There are two important notes to be made regarding Table 15.2. Firstly, the self-classification question is based on registration. Effectively, this question should act as a check for the registration questions.

Table 15.2 Registration of business, by employment category

	Formal (%)	Informal (%)
Organisation or business a registered company or close corporation		
Yes	83.6	7.2
No	16.4	92.8
N	6 682 466	1 820 397
Registered for VAT		
Yes	79.7	6.1
No	20.3	93.9
N	6 523 454	1 817 379
Is the organisation/business/enterprise/branch where … works		
Formal sector	100.0	
Informal sector		100.0
N	6 872 924	1 873 136

Source: Authors' calculations from StatsSA, September 2001 LFS

Secondly, self-categorisation by the respondent does not always coincide with the responses provided for the registration questions – the 'informal' respondents who reported being a worker for company a or close corporation (7.2 per cent) or being registered for VAT (6.1 per cent) should have self-classified as 'formal' according to the instructions provided with the question. One explanation for this discrepancy may be that the respondent was giving inconsistent information for another worker in the household. A second reason could be that the respondent has a perception of formal and informal work that is different to the enterprise-based definition.

Explaining the variability in informal economy employment data

We now move on to address some of the specificities of the various surveys to investigate whether there have been any deficiencies in the data-collection process, which may explain the volatility in the reported data. A first explanation for the variability in data relates to the compatibility of survey instruments. The informal economy employment data over the period 1997–1999 is based on the OHS. The data from the OHS and the LFS are not directly comparable since they are designed as separate instruments. This explains some of the volatility in the data. However, from February 2000 onwards the same instrument, the LFS, is used. The problems with the data appear to be most acute since the introduction of the LFS.

A second and important consideration is that statistical data on the informal economy, in general, and specifically on employment in the informal economy are a relatively recent development in South Africa. Since informal economy employment data were first collected in 1995, StatsSA has significantly improved the questions used to capture the nature and extent of informal employment. Further, with respect to registering informal activities, not only is the LFS an improvement on the OHS, there has been improved prompting and training of fieldworkers and increased awareness of coders (Budlender, Buwembo & Shabalala 2001). Thus, part of the volatility in the data, in particular the increase in informal employment, is a reflection of improved data collection.

Sampling frame, sampling method and size of sample are important determinants of validity and reliability of a survey. The number of households surveyed by the OHS and LFS has changed over time, primarily for financial reasons. StatsSA itself and other researchers report problems with the various OHS and LFS datasets (see Budlender & Hirschowitz 2000). The problems cited are either conceptual (for example, ineffective definition of the informal economy) or technical (for example, data contain inconsistencies).

As is clear from Figure 15.2, the February 2001 LFS reports the highest level of informal employment – a peak of 2 665 227. This appears to be inconsistent with other LFSs. Analysis of the data indicates that the February 2001 LFS appears to reverse the trend of male/female employment in the informal economy, reporting an inordinately high level of female informal employment. Further, informal employment in KwaZulu-Natal province for the February 2001 LFS appears to be high, as does the number of those employed in the wholesale and retail sector.

A major limitation of the LFS design is that it facilitates the measure of a main job only. In reality, there are certainly workers who hold more than one job and this could include cases where one job is formal and the other informal. What we do not know is how many workers have more than one job. In the February 2001 LFS, fieldworkers were offered incentives to survey informal workers. The use of incentives may have resulted in a higher number of informal workers. However, we would then expect to find a concomitant decrease in the number of formal workers. This is not the case (see Table 15.1), so the suggestion of incentives causing fieldworkers to report formal workers as informal does not explain the sharp rise in informal workers in February 2001.

Incorrect weighting is another possible factor that could produce changes in distribution. We find incorrect weighting does not successfully explain the marked change in distribution. Analysis of the February 2001 LFS demonstrated that for informal workers aged 15–65, the unweighted distribution of males and females was 46.3 per cent and 53.7 per cent, respectively. The weighted distribution for the same group was 47.4 per cent and 52.6 per cent. This was in contrast to the unweighted and weighted distribution in September 2000 and September 2001, where the distribution was reversed for males and females; for example, for workers aged 15–65, the distribution (unweighted) in September 2000 of males and females was 53.8 per cent and 46.2 per cent, respectively. Effectively, the difference lies in the underlying sample distribution, and this carries through to the weighted data.

StatsSA (2002a) provided a number of reasons for the significant increase in the number of informal workers: a follow-up survey focused on self-employment and small businesses resulting in greater numbers of workers self-classifying themselves as informal; a change in sampling frame producing a new distribution; and significant fluctuations in numbers because entry into and exit from the sector is easy and common. Although the labour statistics show some fluctuation after February 2001, the number of informal workers remains relatively stable (see Figure 15.2). The argument that ease of entry produces major changes in distribution is unconvincing, because the new sampling frame has not produced consistently high figures and the measurement of informal workers has remained relatively stable since September 2001. The most reasonable explanation for the exceptional February 2001 statistics is that informal workers were either captured more effectively or were over-sampled for that specific survey.

Closer analysis of the data on employment in the wholesale and retail trade as well as employment in elementary occupations for four consecutive LFSs is revealing. Table 15.3 presents data over time for 'retail trade not in stores' and street vending. For February 2001, the total numbers both of retail workers not in stores (and presumably on the streets and, therefore, classified as informal) and of street vendors seem inordinately high.

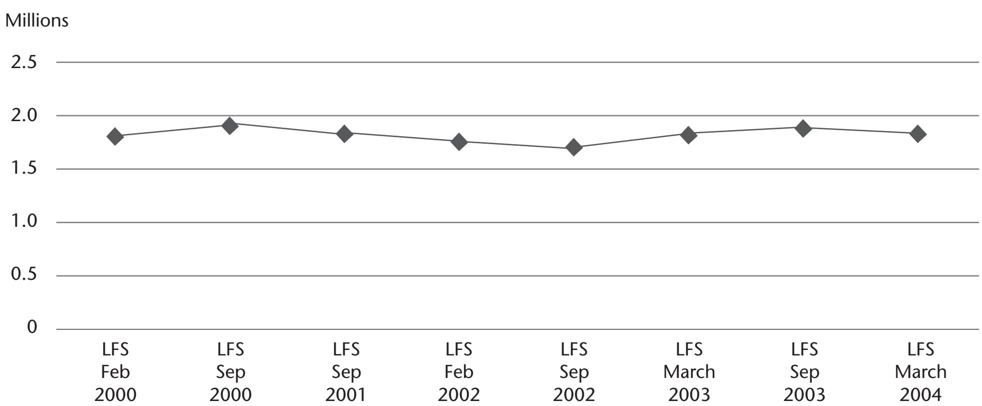
Table 15.3 Employment in wholesale and retail stores and in street vending, changes over time

	LFS Feb 2000	LFS Sept 2000	LFS Feb 2001	LFS Sept 2001
Employment in wholesale and retail trade				
Retail trade not in stores	696 987	734 620	*1 196 814*	718 465
Employment in elementary occupations				
Street vendors, food	399 769	352 971	*672 702*	385 185
Street vendors, non-food products	91 736	139 216	*211 143*	129 949

Source: Authors' calculations from StatsSA various, LFS

These data show conclusively that the February 2001 LFS is an outlier in terms of informal economy employment. Figure 15.3 excludes the February 2001 data. Without this data the overall pattern of informal employment is more plausible.

Figure 15.3 Informal employment in South Africa, excluding February 2001 LFS



Source: Authors' calculations from StatsSA various, LFS

However, although the February 2001 LFS is clearly an outlier, we are unsure if this LFS rather than all of the other estimates is closest to the true level of informal employment in South Africa. In other words, it may be the case that the February 2001 LFS is actually the 'correct' estimate, with all of the other estimates significantly under-representing the true level of informal employment in South Africa. StatsSA (2002a) notes that in the February 2001 LFS more probing questions were asked about self-employment and small businesses in a follow-up survey, which may have led to a larger number of respondents than usual classifying themselves as employed in the informal economy. Hence, the February 2001 LFS may well be the most accurate estimate of informal employment.

A remaining puzzle that needs some explanation is the significant drop in informal employment in the September 2001 LFS. In other words, if the February 2001 estimate of informal employment is the most accurate estimate, why do we observe a fall from 2.6 million to 1.8 million in September 2001? We would expect the September 2001 estimate to be relatively close to the February 2001 estimate. According to StatsSA (2002a), in September 2001 a new sample was drawn due to interviewee fatigue and, once again, respondents may have classified themselves as not economically active rather than employed in the informal sector. Thus, because a new sample was drawn and the issues of self-employment and small business were not explored in a follow-up survey, as was the case for February 2001, September 2001 may be a significant underestimation of the true level of informal employment in South Africa. Furthermore, a new field team was used for the September 2001 LFS, which may well have resulted in issues of informal employment not being sufficiently canvassed.

These problems raise the issue of validity and reliability of these surveys and the estimates of informal employment in South Africa. While it can be argued that observed growth in informal employment over the period 1997–2004 could be a reflection of both actual growth and improved data collection, it is evident that there are substantial problems with the estimates of informal employment in South Africa and that these data should be treated with caution. In particular, any policy discussions regarding the effectiveness or otherwise of the government's employment-creation strategies that rely on these estimates of informal employment, which much of the recent policy debate does, should really be based on more reliable data.

'Informal sector': debates about definitions

In the previous section, the suggested reasons for inaccurate measurement of the informal worker are largely technical, including a restrictive survey design that captures information for main job only and an apparent change in sampling frame. In this section, we shift to conceptualisation of the informal economy, and assess whether the divide between formal and informal employment is an appropriate demarcation of employment characteristics in the South African economy. Can alternative definitions give us a better measure of the formal and informal economies? Formal employment is considered to be secure, protected by labour legislation, better paid and subject to 'normal' benefits such as annual leave and pension provision. In terms of the ICLS recommendation, formal employment is deemed to be in registered enterprises. Informal employment, on the other hand, is deemed to be in unregistered enterprises and does not enjoy the benefits and security associated with formal employment. Using the enterprise-based definition as a starting point, this section of the chapter addresses whether or not this distinction between formal and informal employment can be precisely defined, and whether StatsSA's enterprise-based definition of formal and informal employment is appropriate.

At this point, it is useful to clarify what the informal economy, or the informal sector, is composed of. Despite Peattie's (1987) critique of the term 'informal sector' as an 'utterly fuzzy' concept and her suggestion that those interested in policy and analysis of this phenomenon should start by abandoning the concept, it continues to be used. Since Keith Hart (1973) first coined the phrase 'informal sector' in the early 1970s to describe the range of subsistence activities of the urban poor, there has been considerable debate about what exactly the term refers to. The most quoted definition is that contained in the International Labour Organisation's (ILO) Kenya Report (1972: 6) in which informal activities are defined as 'a way of doing things', characterised by 'ease of entry; reliance on indigenous resources; family ownership of enterprises; small scale of operation; labour intensive and adapted technology; skill acquired outside of the formal school system and unregulated and competitive markets'.

The definition has evolved over the years, as has the character of the phenomenon it aims to describe. Increasingly, informal activities are the result of formal firms 'informalising'. Further, there are supply relations from the formal to the informal. These trends render some of the characteristics identified in the ILO definition nonsensical. Lund and Srinivas (2000: 9) point out that 'we do not think of formal sector procurers of fruit and vegetables from agribusiness who supply to informal traders as "trading in indigenous resources"'. A machinist doing piecework in the clothing industry is as likely to have acquired her skills in the formal education system as outside of it.

Castells and Portes (1989: 12) describe the informal economy as a 'common sense' notion that cannot be captured by a strict definition. Although the main writings on the definition of the informal sector differ markedly as to what criteria they use to define the 'informal sector', and as to the relative weighting of different criteria, a criterion common to all definitions is that these are economic activities that are small-scale and elude certain government requirements or, as Castells and Portes (1989: 12) put it, are 'unregulated by the institutions of society, in a legal and social environment in which similar activities are regulated'. Examples of such requirements are registration, tax and social security obligations and health and safety rules.

For our purposes, two important points are worth noting. Firstly, the term 'informal sector' disguises a significant degree of heterogeneity. Informal activities encompass different types of economic activity (trading, collecting, providing a service and manufacturing), different employment relations (the self-employed, paid and unpaid workers and disguised wage workers) and activities with different economic potential (survivalist activities and successful small enterprises). A second and related problem is the distinction between the formal and informal 'sectors' as if there was a clear line dividing the two. Closer analysis of this phenomenon demonstrates that they are integrally linked. With the exception of illegal activities, there are few examples of informal operators who are not linked (through either supply or customer networks) into the formal economy. As Peattie (1987: 858) points out, 'if we think about the world in terms of a formal and informal sector we will be glossing over the linkages which are critical for a working policy and which constitute the most difficult elements politically in policy development'.

Using the term 'informal economy' rather than 'informal sector' partially addresses such concerns. The word 'economy' implies a greater range of activities than 'sector'. If both formal and informal activities are seen as part of the economy, we are better able to see the linkages between the two. Implied in the notion informal is that there is a formal, a norm, against which these other activities can be compared. As with any norm, this will be time and context specific. With respect to the labour market, Eapen (2001) notes how some analysts (for example, Papola 1980; Banerjee 1985) have defined informality in terms of the absence of characteristics that belong to 'formal' activities like security or regularity of work, better earnings, existence of non-wage and long-term benefits, protective legislation and union protection. She goes on to point out that in a situation in which a number of activities within the formal sector are getting 'informalised', and private, small-scale processing and manufacturing enterprises are growing, the borderline becomes blurred. Considering this issue from another angle, Bromley (1995: 146) asks: 'If an enterprise is required to have six official permits, for example, but only has five, should it be considered informal even when the sixth derives from a moribund regulation that most entrepreneurs ignore?' He concludes that 'formality and informality are really the opposite poles of a continuum with many intermediate and mixed cases'.

The ILO (2002b) has recently proposed a definition of the informal economy that is based on the employment characteristics of the worker. The 2002 International Labour Conference states:

> The term 'informal economy' refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements. Their activities are not included in the law, which means that they are operating outside the formal reach of the law; or they are not covered in practice, which means that – although they are operating within the formal reach of the law, the law is not applied or not enforced; or the law discourages compliance because it is inappropriate, burdensome, or imposes excessive costs. (2002b: 5)

The difference between these definitions is captured in Table 15.4. The enterprise-based definition, currently used by StatsSA, is made up of cells 3 and 4 with the enterprise being the unit of analysis. In contrast, the new employment-based definition, now recommended by both the ILO and the ICLS, examines the nature of the work being performed and defines the informal economy as being made up of cells 2 and 4. An issue that arises and which we seek to address in this section is whether the employment-based definition would be more appropriate to capture the informal economy in South Africa.

Table 15.4 Enterprise-based versus employment-based definition

Production units	Type of employment	
	Formal	**Informal**
Formal enterprises	1	2
Informal enterprises	3	4

Note: Formal employment = 1; Enterprise-based definition = 3 + 4; Employment-based definition = 2 + 4.

The LFS contains a range of indicators (pertaining to both the enterprise and the worker) that we can use to compare formal and informal workers. We have seen earlier that the survey makes use of the registration status of the enterprise to define a formal or informal worker, and a self-selection question to measure formal or informal status that also relies on registration status. Selected indicators that apply to all workers are presented in Table 15.5. Some of the indicators relate to the enterprise and have been used in definitions of formal and informal work. Notably, location of work and number of workers are key characteristics for labelling an individual as formal or informal. According to StatsSA (2002a: xii) informal enterprises 'are seldom run from business premises. Instead, they are run from homes, street pavements or other informal arrangements'. This is borne out by the statistics: 91 per cent of formal workers work in a factory, office or service outlet; 50 per cent of informal workers work at the business owner's home or farm, and just over 20 per cent have no fixed location for their work. Informal enterprises are 'generally small in nature' (StatsSA 2002a: xii); over 85 per cent of informal workers work in enterprises that have fewer than five workers, compared with only 12 per cent of formal workers who do so.

Other indicators relating to work conditions included in Table 15.5 are flexibility of working hours, desire to work longer hours and access to medical aid or health insurance. Flexibility of working hours is argued to be a major advantage of working in the informal economy; however, the higher proportion of informal workers expressing interest in working longer hours may be related to a need to earn higher income (our analysis has shown informal economy workers earn significantly less than their formal counterparts). Formal workers are more likely to have access to medical aid or health insurance but even their access was relatively low. A key argument in promoting change to a worker-based definition is that the distribution for these indicators is not exclusive to formal and informal categories. There are informal workers who have access to medical aid and there are formal workers who have flexible working hours.

Table 15.5 Enterprise and worker characteristics, by type of worker

	Formal (%)	Informal (%)
Location	**6 866 236**	**1 872 801**
Owner's home/farm	3.2	50.1
Someone else's home	0.6	8.9
Factory/office	62.7	4.4
Service outlet	28.3	7.4
At a market	0.3	0.8
Footpath/street	1.5	6.4
No fixed location	2.9	21.4
Other	0.5	0.6
Number of regular workers	**6 550 854**	**1 856 611**
1	2.7	54.8
2–4	9.5	30.9
5–9	11.5	6.3
10–19	16.1	2.8
20–49	19.4	2.7
50+	40.8	2.5
Medical aid or health insurance	**6 713 861**	**1 857 811**
Yes, self only	15.0	1.1
Yes, self & dependants	23.3	2.2
No medical aid benefit	61.7	96.7
Flexible working hours	**6 821 695**	**1 862 897**
Can decide fully	8.9	67.8
Limited range	4.8	7.2
Fixed by employer	86.3	25.0
Does … want to work longer hours?	**6 747 020**	**1 843 461**
Yes	13.3	26.3

Source: Authors' calculations from StatsSA, LFS Sept 2001

Workers are not a homogeneous group. This is clearly demonstrated when using the enterprise-based framework to compare formal and informal workers. The majority of formal workers (93 per cent) are employees, in contrast to informal workers of whom only 26 per cent are employees and 62 per cent are own-account workers (see Table 15.6). This typology of workers and the distribution of workers within each category are important, because a number of indicators measured in LFSs are addressed to employees only.

Indicators relevant to employees only are presented in Table 15.7. These indicators measure characteristics of the relationship with the employer and conditions of work, including number of employers, the year the employee started working for the enterprise, permanence of work, contractual agreement, pension or retirement and leave

Table 15.6 Work arrangement of formal and informal workers

	Formal (%)	Informal (%)
Main work	**6 870 721**	**1 872 432**
Work for someone else for pay	93.1	25.6
Work for one or more hhs as domestic, gardener, security guard	0.2	6.8
Work on own or small hh farm/plot or collect natural products	0.0	1.3
Work on own or with partner in any type of business	6.2	62.0
Help without pay in hh business	0.4	4.4

Source: Authors' calculations from StatsSA, LFS Sept 2001

arrangements, and membership of a trade union. It is important to reiterate from the outset that a relatively low proportion of informal workers were classified as employees (see Table 15.6).

Informal workers (12.2 per cent) were more likely than formal workers (3.5 per cent) to report having more than one employer. Gardeners, as informal workers, would be included here.

Generally, informal employees reported commencing work, or had changed jobs, more recently than their formal counterparts (Table 15.7). The highest percentage of employees commenced employment in the period 1995–1999 (i.e. three to seven years before the survey). Informal employees were over-represented in more recent periods (for example, a high number commenced work in 2001) and were under-represented in the period 1980–1994.

Formal employees were more likely than informal employees to enjoy a permanent relationship with their employer (84.3 per cent and 44.0 per cent, respectively). Informal workers were over-represented in the temporary and casual employee categories. Access to a written contract is significantly skewed in favour of formal employees, 65 per cent of whom had such contracts. Over 80 per cent of all informal employees stated that they had no written contract with their employer. Two-thirds of formal employees worked for an employer who made contributions to a pension or retirement fund; employers of informal employees are significantly less likely to do so, with only 11.8 per cent of informal employees reporting an employer contributing to a pension or retirement fund.

Formal employees showed significant advantages over their informal counterparts in respect of paid leave and membership of a trade union. Comparing formal and informal employees, 73.8 per cent of the former confirmed paid leave relative to only 16.4 per cent of the latter. While the proportion of formal employees who were members of a trade union was relatively low (44.0 per cent), this was significantly higher than for informal employees (8.4 per cent).

To summarise, while the enterprise framework exposes differences in characteristics of formal and informal workers, the categories are by no means mutually exclusive. Some informal workers do have characteristics of formal workers and vice versa.

Table 15.7 Characteristics of employees, by employment category

	Formal (%)	Informal (%)
Number of employers	**6 366 732**	**590 201**
One employer	96.5	87.8
More than one employer	3.5	12.2
Year commenced working	**6 388 392**	**596 154**
–1979	6.6	4.2
1980–1989	20.1	8.3
1990–1994	17.7	8.3
1995–1999	32.2	30.6
2000	9.6	15.8
2001	13.8	32.8
Work	**6 384 676**	**585 449**
Permanent	84.3	44.0
Fixed-period contract	3.6	4.0
Temporary	7.2	30.1
Casual	4.8	20.7
Seasonal	0.2	1.2
Written contract	**6 400 213**	**596 010**
Yes	65.2	14.9
No	31.4	82.1
Don't know	3.5	3.0
Contribution to pension or retirement fund	**6 175 294**	**577 452**
Yes	66.7	11.8
No	33.3	88.2
Paid leave	**6 238 978**	**581 335**
Yes	73.8	16.4
No	26.2	83.6
Trade union membership	**6 111 215**	**576 152**
Yes	44.0	8.4
No	56.0	91.6

Source: Authors' calculations from StatsSA, LFS Sept 2001

Note: The percentages in this table refer to both employees and the self-employed

Using the March 2004 LFS, we estimate how well the enterprise-based definition predicts formal or informal characteristics. A formal–informal index was developed from a set of 13 indicators.[5] The indicators used for the index are not weighted. The most formal worker would achieve a score of 13 for the index while the most informal would achieve a score of zero.

Formal workers obtained a mean score of 9.2 for the formal–informal index, and 7.3 per cent of formal workers obtained a score of 13. Less than a quarter of formal workers obtained a score of 7 or lower (see Table 15.8). Informal workers obtained a mean score of 1.2 for the formal–informal index, and 60.4 per cent of informal workers obtained a score of 0. Over 95 per cent of informal workers obtained a score of 5 or less.

Table 15.8 Formal–informal index for formal and informal workers

Index score	Formal (N)	Formal (%)	Informal (N)	Informal (%)
13	574 626	7.3	398	0.0
12	1 205 941	15.4	5 126	0.3
11	1 333 428	17.0	7 714	0.4
10	1 341 682	17.1	7 561	0.4
9	939 984	12.0	12 491	0.7
8	589 071	7.5	8 250	0.4
7	404 610	5.2	15 689	0.9
6	373 774	4.8	23 055	1.3
5	383 909	4.9	46 482	2.5
4	251 509	3.2	67 655	3.7
3	226 719	2.9	160 172	8.7
2	133 597	1.7	265 126	14.5
1	41 353	0.5	106 194	5.8
0	27 048	0.3	1 107 701	60.4
Total	7 827 251	100.0	1 833 612	100.0

Source: Authors' calculations from StatsSA, LFS March 2004

Using the September 2000 LFS, Budlender et al. (2001: 14) examine the characteristics of formal sector workers in similar fashion to what we have done to construct a new variable using these characteristics to indicate the number of informal attributes of each worker. They show that over 45 per cent of workers employed in the formal sector display one or more of these characteristics. Similarly, Muller (2002) uses the OHS and LFS to show that large numbers of jobs in the formal economy display characteristics of informal work, and concludes that the estimates of informal work are significantly lower than the true level of informal work in the economy. These findings challenge the very notion of 'atypical' work.

In the September 2001 LFS, 160 820 workers were recorded as being informal workers for the self-classification question, in spite of it being reported elsewhere that they worked for a registered enterprise. These workers, termed 'formal-like' here, showed significant differences from the average informal worker on many demographic and employment-related indicators (see Table 15.9). It was noted in the previous section that such individuals could have been misclassified as informal or that their perception differs from the enterprise-based definition. Although these individuals have some characteristics that correspond to a formal worker, a simple reclassification is by no means valid since they exhibit characteristics that correspond to an informal worker as well.

Table 15.9 Comparison of selected indicators for 'formal-like' informal workers and all informal workers

Indicator	**'Formal-like' informal (%)** N = 160 820	**All informal (%)** N = 1 873 136
Gender		
Male	67.8	54.4
Race group		
African	60.5	84.4
White	25.1	6.6
Geographic indicators		
Urban	75.5	56.5
Gauteng	40.1	22.0
Highest education level		
Matric or post-matric education	41.0	19.7
Monthly income		
Income R1 500+ per month	44.8	18.4
Work indicators		
Works for someone else for pay	63.2	25.6
Works in factory or service outlet	41.7	11.8
Works in owner's home or farm	27.1	50.1
Works in no fixed location	17.2	21.4
Employee indicators*	N = 103 207	N = 590 201
Permanent job	72.0	44.0
Temporary job	15.7	20.7
Casual job	9.0	20.7
Written contract	36.9	14.9
Contribution to pension or retirement fund	36.7	11.8
Paid leave	42.8	16.4

Source: Authors' calculations from StatsSA, LFS Sept 2001

Note: *These indicators refer only to employees, while the earlier ones refer to both employees and the self-employed

Evidence of growing informalisation

Smaller-scale case studies confirm the existence of high levels of informal-type work in the formal economy. Theron and Godfrey (2000) distinguish between casualisation and externalisation of work. The essence of the difference is the nature of the contract. In the case of casualisation (i.e. the increase in the use of casual, temporary and part-time workers), the relationship is still an employment relationship. Externalisation, in contrast, is where part of the work is put out to external contractors or agents who are bound by commercial contracts rather than being employed. Evidence of each of these is considered in turn.

In late 1995, Standing, Sender and Weeks interviewed just under 400 manufacturing firms for the first South African Enterprise Labour Flexibility Survey (SALFS). Their report (1996: 330) noted that the firms came disproportionately from the upper end of the industrial sector, a segment of the sector they argued that is likely to be relatively good in terms of their employment and labour practices. In the survey, about a quarter (26.8 per cent) of firms reported that they used part-time workers, and 82.5 per cent of all firms had employed temporary or casual labour in the recent past.

Labour force statistics largely do not capture trends in externalisation of work. Other means of assessing prevalence and quantifying changes have to be used. Data can be gathered either from firms or at an industry level to assess the demand for intermediaries (labour brokers and employment agencies), and/or the number and size of intermediaries can be assessed in terms of the supply of their services. With respect to demand for labour intermediaries, Standing et al. (1996) note that there is an increase in externalisation of work both in sectors that traditionally have used contract labour and in those that traditionally have not. Mines, for example, have for many years used contract workers for certain specialist tasks. In the 1980s and 1990s, mines not only contracted out all their non-core tasks (catering, ground maintenance, office cleaning) but also started using contract workers for core mining activities. In gold mining, contract employees constituted 3 per cent of the workforce in 1987. By 1994, this had risen to 10 per cent. In coal mining, 5 per cent of the workforce were contract employees, and by 1994 they accounted for 16 per cent of the workforce (Standing et al. 1996: 302). The use of labour brokers has proliferated in recent years (Stratton 1997; Hemson 2002). In her analysis of the retail sector, Kenny (2000: 3) not only demonstrates that casual and subcontracted labour constitutes up to 65 per cent of total employment, but highlights how core tasks like shelf packing are increasingly done by employees of labour brokers, contracted by suppliers.

A sector that traditionally did not externalise work is manufacturing. The SALFS found that 45.4 per cent of firms used contract labour (Standing et al. 1996: 343). These trends are confirmed in Theron and Godfrey's (2000) more qualitative study, in which interviews were conducted with key informants in retail, mining, manufacturing, catering and accommodation, construction and transport. Almost all informants reported an increase in the use of labour brokers and employment agencies (Theron & Godfrey 2000).

There is less information on the supply side of these part-time, flexible and contract labour markets. Naidoo (1994) found that there were 1 200 labour brokers registered with the Department of Labour, 800 of which were operational. The author estimated that there were a further 2 000 unregistered labour brokers. Rees (1997: 31) more recently noted that the majority of brokers are not registered, but estimated that between 3 000 and 5 000 brokers supply 100 000 to 120 000 temporary workers to companies in South Africa. In the iron and steel sector alone, there are 600 brokers supplying between 30 000 and 60 000 workers. Theron and Godfrey (2000) also state that there is clearly an increase in the number and size of intermediaries such as employment agencies and labour brokers. They give the example of Privest Outsourcing, which in the space of nine years has grown to be a listed company operating nationally. The growth in labour brokering is an issue where further analysis is necessary.

Another form of externalisation is the process of setting up independent contractors. The dependence or independence of these contractors varies. On one end of the spectrum, a system of independent contracting can be set up simply to avoid labour legislation, with there being no substantive change in the employment relationship. The contractor is still completely dependent on the 'employer' who then does not have to pay any benefits. On the other end of the spectrum are those contractors who genuinely establish small businesses. They may start with only one source of work but then expand to service a number of different clients.

Once again, it is very difficult to assess these trends through national labour force statistics or even through sector analyses. Case study material, however, demonstrates that subcontracting relationships are on the increase. Skinner and Valodia's (2001) analysis of the Confederation of Employers of South Africa (Cofesa), a labour consultancy that assists companies to restructure their workforce, to change from employees to contractors and to outsource production to them, is a case in point. Companies restructure their workforce into a system of independent contractors, thereby bypassing provisions of the Labour Relations Act. Cofesa firms no longer have to adhere to collective agreements on minimum wages or contribute to any of the benefit or training schemes. In the workplace, other than changes in labour conditions, everything else remains the same. Skinner and Valodia (2001) demonstrate how, in recent years, Cofesa has experienced dramatic growth. By the end of 2000, they estimated that this had resulted in the establishment of over 700 000 independent contractors. Cofesa members are involved in many different sectors.

A system of establishing independent contractors has been used in agriculture for many years. The Centre for African Research and Transformation (CART 2000) outlines how all the large forestry companies (Mondi, Safcol and Sappi) now hire contractors to carry out planting, tending and silvicultural operations. CART estimates that the outsourcing of forestry activities has created an industry with an annual turnover of R600 million and 35 000 employees. A similar system operates in the sugar industry.

Standing et al. (1996: 345) conclude: 'In sum, South African industry has resorted fairly extensively to external flexibility, and there is clearly no strong barrier to doing so.'

Conclusion

Given the size and growing importance of the informal economy, it is important to measure it accurately. Accurate measurement will facilitate improved predictions and modelling of economic performance and market behaviour (ILO 2002a: 13). It is in the interests of numerous role-players to obtain accurate measurement of the informal economy. Governments would benefit from more accurate economic indicators, labour organisations such as the ILO would obtain a solid grounding for policy development, and organisations representing workers would have empirical data to expose and counter exclusion, exploitation and market biases.

Our analysis in this chapter points to two important conclusions. First, the estimates of informal employment in South Africa, and hence of total employment, are variable and unreliable. Ideally, any policy discussions based on these data should come with the health warning: 'The total number of workers in the informal economy cannot be precisely determined.' Second, some workers classified in the informal economy display characteristics of work that are considered to be formal, and large numbers of workers classified in the formal economy display characteristics of work commonly associated with informal work. Thus, South Africa should consider adopting a work characteristics-based definition of informal work.

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Notes

1 Unfortunately we cannot reflect on a full ten-year period, as the informal economy cannot be measured accurately from StatsSA's 1995 and 1996 OHS (for details, see Budlender & Hirschowitz 2000).

2 In the reported statistics on the labour market in South Africa, StatsSA uses two categories of formal worker and three categories of informal worker. Formal workers are either formal or commercial agricultural workers. Informal workers are informal, subsistence agriculture and domestic workers. The justification for treating agricultural workers (commercial and subsistence) as separate categories is that agriculture represents primary production. Domestic workers represent a large, unique group within the informal economy. The South African government has introduced legislation to improve the working conditions of domestic workers. The legislation requires the employer to register the domestic worker for unemployment insurance. A written contract between employer and employee and a minimum wage are also required. These contractual changes would give the domestic worker a more formal status; however, establishing what proportion of domestic workers have been registered and whether employers are recognising written contracts and minimum wages is beyond the scope of this chapter. All statistics reported in the chapter exclude agricultural activities (both commercial and subsistence) and domestic workers, except for Table 15.1 and Figure 15.1.

3 See Aliber (2003) for an analysis of employment trends in subsistence agriculture.

4 The self-selection question reads: 'Is the organisation/business/enterprise/branch where … works', with responses 1 = In the formal sector; 2 = In the informal sector (including domestic work); and 3 = Don't know. Information for the fieldworker includes: 'Formal sector employment is where the employer (institution, business or private individual) is registered to perform the activity. Informal sector employment is where the employer is not registered' (StatsSA 2001d).

5 The indicators were: permanence of work (permanent = 1, fixed contract, temporary, casual, seasonal = 0); written contract (yes = 1, no = 0); employer contributes to pension or retirement fund (yes = 1, no = 0); paid leave (yes = 1, no = 0); membership of trade union (yes = 1; no = 0); number of regular workers in enterprise (50 or more = 1, 1–49 = 0); works for a registered company or close corporation (yes = 1, no = 0); employer makes UIF deductions (yes = 1, no = 0); employer makes medical aid or health insurance payments (yes = 1, no = 0); enterprise is registered to pay VAT (yes = 1, no = 0); location of work (factory, office, service outlet = 1, own home or farm, market, footpath, street, no fixed location = 2); number of employers (1 or more = 1, other = 0); who pays wage (employer, labour broker, agency = 1, other = 0).

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Section 7
Population, health and development

16 Coping with illnesses and deaths in post-apartheid South Africa: family perspectives

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Introduction

Illnesses and deaths are events that families have had to cope with since the formation of the family as a unit; however, these events remain difficult to deal with as they tend to affect the core of the functioning of the family. Sociological models of family operation introduced by Parsons (1949) and economic models such as Becker's (1981) have described the family as functioning like an institution. As with other social institutions, each family member has a role to play in the optimal functioning of this institution. These roles are often not easily replaceable and losing one member disturbs the equilibrium. Furthermore, an ill member of the family who is unable to perform his or her roles and duties affects the operation of the family, and someone else has to perform those duties. Death has a similar effect families, only there is the added loss that is often psychologically challenging to overcome. Models of family formation and operation do not elaborate on how families cope with such events, probably because, in the past, terminal illnesses and deaths happened mostly in old age.

Coping with illness and death may involve several adjustments within the family unit. If a deceased member of the family was not a key financial provider, his or her death will mostly affect the family emotionally. However, if an individual who is ill is a key contributor to the material functioning of the family, then the family financial pool suffers, even more so if the individual requires care. In the absence of family members who can provide care, the family has to purchase care – the use of the extended family for this purpose has been shown to be lessening because of the overburden of care due to HIV/AIDS (Baier 1997). The same scenario holds for death. However, in the absence of a life-threatening or incapacitating epidemic, illnesses and deaths usually occur among older people. In this case, the family has to provide care for the ill elderly person. Social structures have made some provisions to accommodate this through old-age homes in cases where the family is unable to care for their elderly family member. Furthermore, the death of an elderly person is often expected, and families tend to have some form of funeral cover to finance the funeral service. Such arrangements are often not made for young adults, since death is less expected. This makes coping with the illness or death of a younger person more difficult.

Diseases that incapacitate a person tend to have both of the effects mentioned earlier on the family. Included here are individuals disabled by accidents or diseases in their advanced stages, such as amputations due to diabetes or cancer in a developed stage. Individuals with AIDS also fall into this category, although here the effect is most profoundly felt since the disease affects the younger population in the economically active ages. HIV/AIDS poses the additional challenge of a sick person in advanced stages of the disease requiring constant care and support. This creates a burden on the family, which includes losing an economically viable person, having to arrange a carer for the ill family member, and having the psychological burden of knowing that the person will eventually die due to the disease.

The question this chapter aims to address is how families cope with illness and death both financially and otherwise. Families that are economically challenged, with minimal resources to care for ill members, also tend to have less access to medical care, and do not have adequate resources to afford a funeral service for their deceased loved ones. For HIV/AIDS and other related diseases that affect the economically active population, these family members are more likely to be the main contributors to the pool of resources in the family. These events have a 'period effect' on a family, since the family has to cope with loss of capital from the removal, through illness or death, of a younger member, but the family also carries this effect for some time after the death, since the family will be in an economically compromised position after losing a member who contributes or has the potential to contribute to the resource pool.

The chapter deals with how people cope with illness and death in three provinces of South Africa (KwaZulu-Natal, the Eastern Cape and Limpopo), and reports on findings of a study that reviews people's opinions on how the South African health system operates and the gaps observed.[1] It is important to consider what achievements have been made in the last decade and what areas still need to be addressed. The next section considers the major health problems that face the South African population. This is followed by a brief presentation on a family structures research project before discussing its findings.

The chapter intentionally does not engage in a full discussion on the effect of the HIV/AIDS epidemic, because this is covered in other chapters in this volume, but it is necessary to note that coping with illnesses and deaths is worsened by the epidemic. More family members are ill and the death rate is now much higher. Unfortunately, it is the reproductive ages, which are also the active ages in the labour market, that are most affected.

Major health problems in South Africa

Overview

According to Bradshaw and Nannan (2004) there has been a rapid decline in the South African population's health in the last decade. This decline is evidenced by a decreasing life expectancy as a result of the rapid spread of HIV/AIDS. A quadruple burden (characterised by poverty-related conditions, emerging chronic diseases of lifestyle, the impact of HIV/AIDS, and high rates of injury) was demonstrated by the Burden of Disease study (Bradshaw, Schneider, Laubscher & Nojilana 2002). Therefore, it becomes necessary to tackle multiple burdens simultaneously. These include the high injury burden, the unfinished agenda of poverty-related illness, which remains an issue, the substantive burden due to emerging chronic diseases, as well as the HIV/AIDS epidemic, which has fuelled the TB epidemic and has also resulted in increased deaths due to pneumonia and diarrhoea. Thus, the complex pattern of disease in South Africa places high demands on health services that are undergoing transformation in the face of shrinking budgets and other infrastructure development demands.

Symptoms of a population acquiring an unhealthy pattern of living is an increase in habits being acquired at a very early age, including smoking tobacco, consuming a typical Western diet and following a sedentary lifestyle. These risky behaviours result in the emergence of a range of risk factors, including tobacco addiction, and being hypertensive, diabetic or obese. The presence of these risk factors over many decades leads to ever-increasing numbers of patients presenting with chronic diseases of lifestyle such as heart attacks, strokes, smoking-related diseases and other conditions. Bradshaw, Bourne, Schneider and Sayed (1999) posited that in developing countries the rise of chronic diseases such as heart disease, strokes and cancer were seen as more advanced causes of death and disability than infectious diseases and malnutrition.

The World Health Organisation (WHO 2003) has suggested that the burden of chronic diseases is increasing rapidly worldwide. It has been reported that almost half of the deaths due to chronic disease are attributable to cardiovascular diseases, while obesity and diabetes are also worrying because they have started to appear among younger people. Risk behaviours such as patterns of modern dietary and physical activity travel across countries and are transferable from one population to another. For many years, diet was known to be a key risk factor for chronic diseases but now physical inactivity is also recognised as an increasingly important determinant of health, mainly due to progressive shifts of lifestyle towards more sedentary patterns, especially in developing countries. Thus, it is likely that a combination of these and other risk factors such as the use of tobacco will have a multiplier effect that is capable of accelerating the pace at which chronic disease emerges. The increasing burden of chronic diseases in turn creates a major public health threat, and demands effective action.[2]

The burden of chronic diseases of lifestyle

Steyn (2001) and the Department of Health (2001) have defined chronic diseases of lifestyle (CDL) as a group of diseases that share similar risk factors due to a long period of exposure to unhealthy diets, lack of exercise and the possibility of stress.

CDL has become a major health problem in both developing and developed countries. About 79 per cent of the deaths occurring in developing countries have been attributed to chronic diseases; demographic and dietary transitions, as well as the globalisation of economic processes, were contributors towards this rising trend (Yach & Puska 2002). Badham (2000) reported that the health profile in South Africa reflects a society that is in transition. Under-nutrition was associated with increased rates of cardiovascular disease and non-insulin dependent diabetes mellitus in adult life. Of great concern in adult life is the increasing prevalence of obesity (as a risk factor for the development of diseases such as hypertension, heart problems, cancer, diabetes and strokes), mainly because of its ability to increase mortality rates by 50 per cent or more.

Van der Merwe (2000) records the following statistics reported during the first National Wellness Conference in South Africa held at the University of Port Elizabeth: tobacco-related conditions killed 25 000 South Africans every year; the most prevalent disease was hypertension, with 20 per cent of men aged 20–50 years having it (interestingly, 32 per cent of the people with hypertension did not realise they had the condition); 25 per cent of the general population had heart disease. Major diseases that contributed to death were heart disease (54%), cancer (37%), strokes (55%), influenza/pneumonia (23%) and diabetes (34%).

Steyn (2001) reported that the burden of chronic disease in South Africa is high, with approximately six million people having hypertension, four million having diabetes, seven million smoking and four million having hyperlipidaemia. About 56 per cent of the population has at least one of these diseases and about 20 per cent is at a high level of risk for CDL. According to Steyn (2001), it is clear that lifestyle changes and medical care are required to reduce the projected burden of these diseases.

Statistics South Africa (StatsSA) undertook a study to investigate the causes of death in South Africa during the period 1997–2001, based on a 12 per cent stratified random sample of deaths that occurred during the study period (StatsSA 2002). Cerebrovascular diseases and heart disease featured prominently in the cause of death pattern among the adult population. Cerebrovascular disease was the leading cause of death for both males and females in the age group 50 and above. It accounted for 8.9 per cent of male deaths and 12.7 per cent of female deaths. Ischaemic and other types of heart disease were leading causes of death among males, while for females it was ischaemic and other forms of heart disease and diabetes mellitus.

Another study was conducted in Limpopo Province to investigate the mortality profile of the province for the period 1997–2001, using the sample of registered deaths obtained from StatsSA. In terms of annual trends, it was noted in the findings that chronic diseases consistently ranked highest during the period for both sexes, and accounted for 42 per cent of the recorded deaths. It was indicated that diabetes, strokes, hypertensive heart diseases, ischaemic heart disease and ill-defined cardiovascular diseases featured more prominently in both males and females in the 45–59-year and over 60-year age groups (Igumbor, Bradshaw & Laubscher 2003).

Efforts to address chronic diseases

The WHO (2003) reported that chronic diseases are preventable to some extent; therefore, the most cost-effective, affordable and sustainable course of action to cope with a chronic diseases epidemic is through primary prevention. Thus, a major development in the thinking behind an integrated health policy calls for the adoption of a common risk-factor approach to the prevention of chronic diseases. There is a clear suggestion from current data that comprehensive public-health strategies to improve the health of the nation should be strengthened.

According to the Department of Health (2001), opportunities exist for prevention and for promoting healthy behaviour at every stage. 'Health priorities for South Africa are based on the promotion of a healthy lifestyle and on prevention, early detection of risk factors and diseases, and cost-effective treatment with good patient compliance' (Steyn 1999: 1). Basically, this includes increasing equitable access to information, life skills related to making informed choices concerning a healthy lifestyle, awareness of early signs and symptoms of priority chronic diseases, stress management and early attendance at health facilities, to mention a few.

Attempts have been made to direct intervention programmes at the whole population via the media, in the workplace and within the education system. Recommendations include improved health care, promotion of health awareness and adoption of healthier lifestyles. According to Steyn (2001), an essential part of the prevention and management of all CDL is the promotion of a healthy lifestyle. This includes the promotion of non-smoking, healthy diet and physical activity.

An example of a large-scale intervention to address the increasing burden of chronic diseases is the 'healthy schools' initiative, which focuses on the prevention of obesity and nutrition-related chronic diseases. Another intervention is a television series called *Soul City*. The programme targets low-income groups and includes health messages addressing both under-nutrition and being overweight. For those without access to television, a related radio programme is broadcast (Doak 2002).

CDL have been identified as a health priority in South Africa and an effective health policy for the prevention and management of chronic diseases has been introduced. The policy suggests a multifaceted health-promotion programme directed at the whole population, and a health-service approach for the early diagnosis and cost-effective management of persons with chronic diseases.

To sum up, various measures have been taken to address CDL. Other illnesses and causes of death are also noted; sexually transmitted infections (including HIV), malaria, diarrhoeal diseases, asthma and TB are among them. Although it is known that these diseases claim a lot of South African lives, it is not clear how people in communities manage these illnesses. Health disparities in South Africa that existed prior to 1994 are still quite obvious. This chapter attempts to present people's views on how they deal with cronic illnesses and when a death eventually occurs in the family, what they do to cope with the situation.

The family structures project

This chapter presents findings from the study 'Understanding the changing family composition and structure in South Africa in the era of the HIV/AIDS pandemic'. The study was conducted in the three poorest provinces of South Africa (KwaZulu-Natal, Limpopo and the Eastern Cape). These three provinces accommodate over 50 per cent of the African population. The study investigated the changes taking place in family structures and how families were coping with the HIV/AIDS epidemic. The specific objectives of the family structures project were to:

- U nderstand the different processes of family formulation;
- I nvestigate the different types of family that exist;
- E xamine the socio-cultural factors that affect families;
- E xplore how people perceive illness and death in the era of HIV/AIDS;
- E xplore the impact of HIV/AIDS on the family;
- A ssess the use of reproductive health services, especially by young people;
- E xamine the pros and cons of government grants; and
- A ssess the coping mechanisms in different types of family.

The study was divided into two phases. Phase One followed a qualitative approach. Focus-group discussions as well as individual in-depth interviews were conducted from February–April 2003. Special effort was made to ensure that the coverage of various geographical areas in the selected provinces was taken into account. A massive number of transcripts were generated from 120 focus-group discussions and 283 individual in-depth interviews (see Table 16.1). Mturi, Xaba and Sekokotla (2003a) provide details of the qualitative study's methodology and findings.

Table 16.1 Distribution of discussions and interviews

Province	FGD	IDI	Total
KwaZulu-Natal	16	156	172
Limpopo	53	89	142
Eastern Cape	51	38	89
Total	120	283	403

Note: FGD = focus-group discussions; IDI = individual in-depth interviews

Phase Two involved conducting a quantitative survey. Information was collected from a total of 3 837 families in the three provinces in January 2004. Table 16.2 presents a breakdown of households visited in each province, by broad age group of the family head.[3] Since the number of families headed by a child is very small, the analysis presented in Table 16.2 includes 3 820 families that are headed either by a person aged 18–64 years (adult) or a person aged 65 years or older (elderly). Both qualitative and quantitative studies collected information on people's access to health services and how they cope with illnesses and deaths in the communities where they live. Here, we present results obtained from the qualitative part of the study.

Table 16.2 Distribution of families visited, by family head

Province	Child (0–17)	Adult (18–64)	Elderly (65+)
KwaZulu-Natal	7	1 167	325
Limpopo	6	965	367
Eastern Cape	4	717	279
Total	17	2 849	971

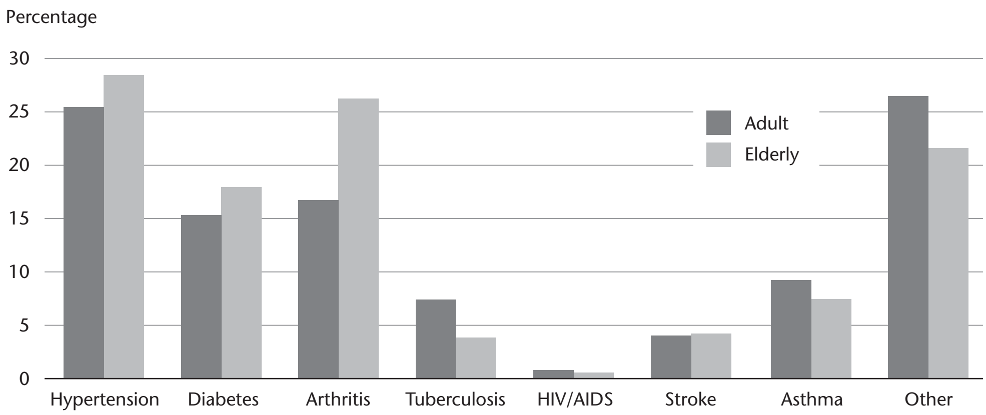
Coping with illnesses

Types of illness

For the survey, the respondent was the head of the family or any other person who was in a position to provide information about that family. While almost one–third (31.1%) of respondents in adult-headed families were suffering from one or multiple illnesses, well over half (58.3% of respondents in elderly-headed families were suffering from various illnesses. The most common illnesses for both broad age groups were hypertension, diabetes and arthritis (see Figure 16.1). It can be stated that the most prevalent illnesses reported by respondents interviewed in the survey were caused by an unhealthy lifestyle, but at present this evidence is circumstantial. Figure 16.1 also shows that the number of 'other' diseases is large. This can be due to the fact that other common illnesses in South Africa such as heart diseases, respiratory diseases and cancer (Reddy 2004) were not listed in the questionaire. The comparison between adults and the elderly on type of illness shows that the three most common illnesses affect the elderly more than they do adults.

Respondents in the adult-headed families were asked if they have ever had a serious injury. Approximately 15 per cent of adult respondents said that they had been injured

Figure 16.1 Types of illness respondents suffer from



at some time before the survey. A breakdown of reported injuries is given in Table 16.3. It is not surprising to find that 61 per cent of the respondents had been injured in an accident, as road traffic accidents are one of the leading causes of death in South Africa (Reddy 2004). The in-depth interview (IDI) findings suggest that road accidents are among the major causes of death, particularly in Limpopo:

> Most deaths in our area are a result of accidents. Yesterday we went to a funeral where the person died of a car accident. Others are mostly caused by diseases, while others are natural deaths. (IDI, woman, rural Limpopo)

> These unending diseases and car accidents, and most of the time if a person is hit by a car it's rare that they'll live. (IDI, woman, rural Limpopo)

Table 16.3 Types of injury adult respondents reported

Type of injury	Percentage
Paralysis	1.9
Snake bite	3.2
Accident	61.0
Stabbed	14.2
Witchcraft	1.8
Due to sport	7.4
Other	10.5
Total (n = 569)	100.0

Management of illnesses

When they are afflicted by illnesses, people either go to clinics and hospitals or to traditional healers. During the survey, well over 90 per cent of adult and elderly respondents were doing something to cure their illnesses. The majority (95%) of these reported that they visit either clinics or hospitals. Figures 16.2 and 16.3 show that there are no disparities by population group on where adults and the elderly go when they are ill. This finding suggests that the incidence of visiting traditional healers is very low (less than 3%). The majority of people choose modern medicines when they are ill. This contradicts earlier findings. Some studies have estimated that about 80 per cent of the African population either practise African medicine or consult indigenous healers (Gumede 1990). This claim is supported by the 1983 *World Health Report*, which indicates that traditional medicines are used by 80 per cent of the African population (WHO 1983). What are the reasons for such a large difference? It could indicate achievements that have been made by the public health campaigns of the Department of Health in encouraging people to seek modern health care, and making health centres more available to sections of the population who previously had no access to them. The results could also indicate that there is less reliance on traditional healers than before, and there could be dual use of both traditional and modern services. Since individuals perceive the use of modern

Figure 16.2 Where adults go for treatment

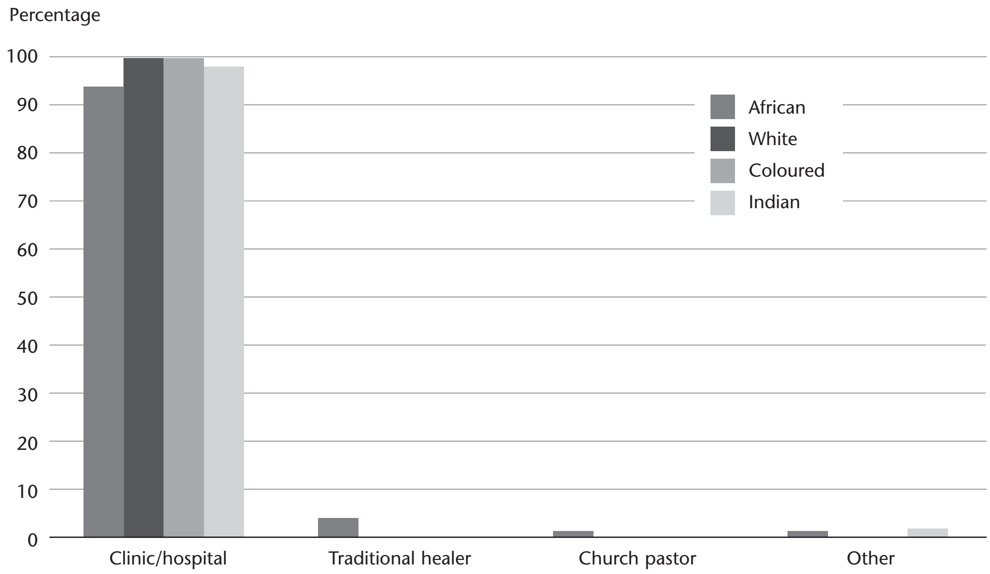
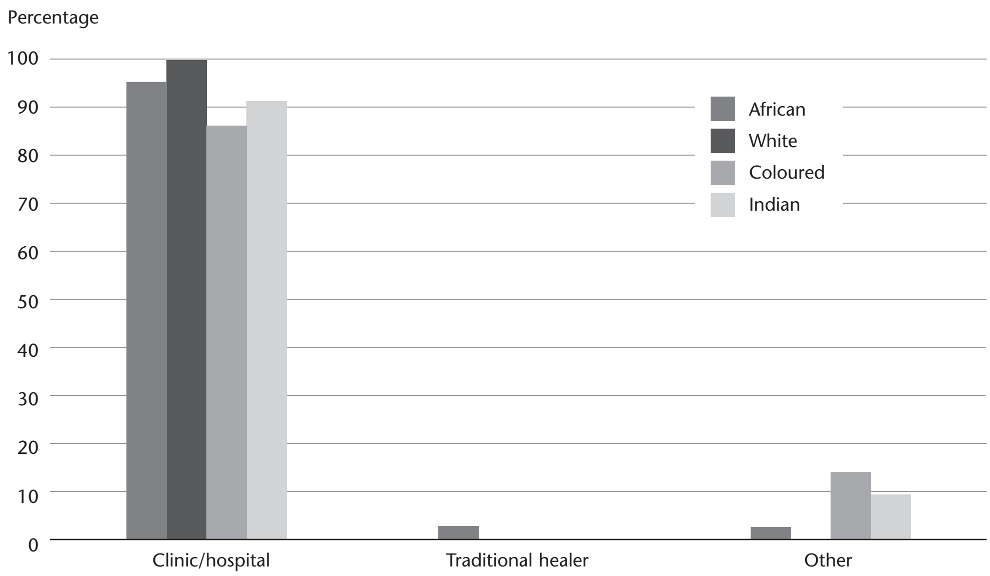


Figure 16.3 Where the elderly go for treatment



services as progressive, they could report them as their main health-care provider. Needless to say, the results are positive and encouraging for improvements in the population's health, and could indicate that if modern health-care services were made available in remote rural areas, which tend to have a higher reliance on traditional health care, often due to lack of accessible modern services, people will probably welcome them and use them.

Costs of health-related services

Under apartheid, the exclusion of Africans operated at all levels. They were not only excluded from accessing health facilities, but the low wages they were paid ensured that even when services were available, many would not be able to afford them. The location of their settlements in areas without infrastructural provision ensured that, even when services were rendered free of charge, many could not even get to the services, or transport would be prohibitively expensive. The expected benefits of cost-recovery in health-care provision, such as those suggested by Akin, Birdsall and De Ferranti (1987) and Parker and Knippenberg (1991), are overshadowed by the difficulties experienced by poor people in accessing health services when service fees are charged. Figure 16.4 shows the reasons given by the elderly for not seeking treatment. Africans indicated that the reasons are related to affordability of treatment. They also identified the distance to health facilities and the cost of transport as being a prohibitive factor.

Figure 16.5 shows the reasons given by adults for not attending health facilities. Here, too, it is clear that Africans are the ones who say they cannot afford to go to health

Figure 16.4 Reasons for the elderly not seeking treatment

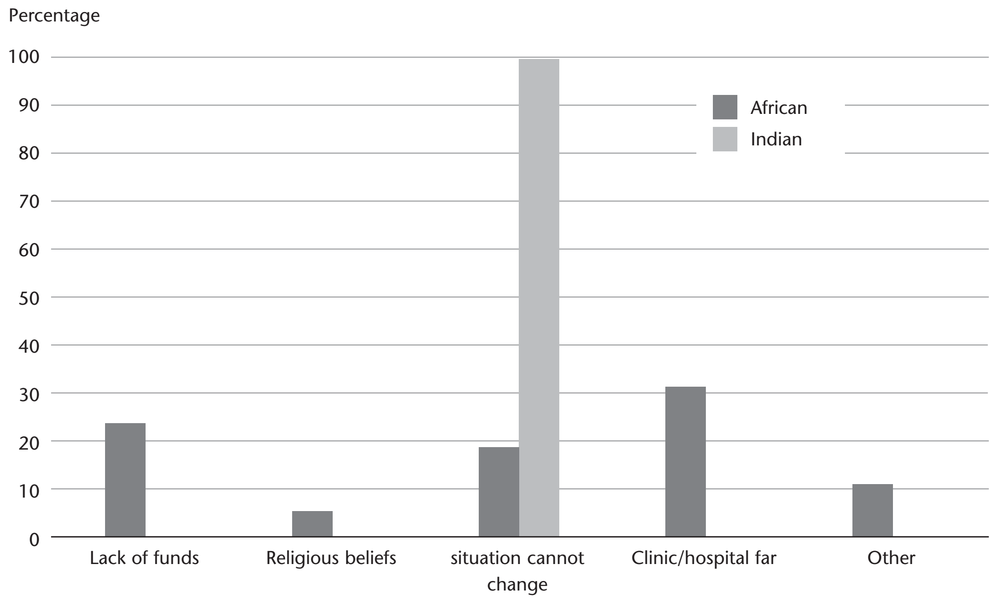
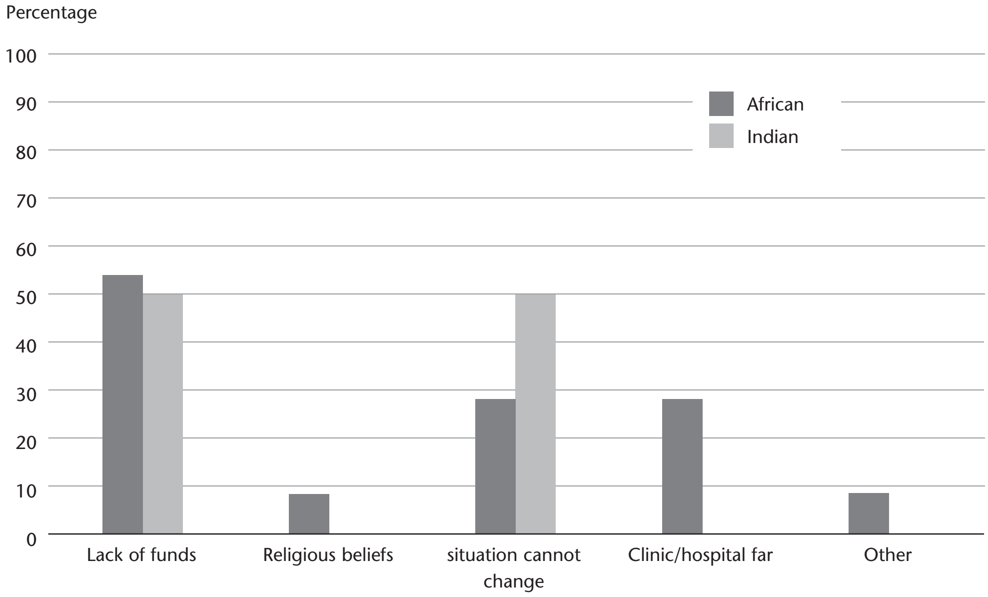


Figure 16.5 Reasons for adults not seeking treatment



facilities. A significant number of Indians also indicated that they could not afford the fees. The level of unemployment is such that many people are unable to afford even the essentials of their lives. Nyonator and Kutzin (1999) have labelled the system in which poor people continually fail to access health services due to fees, while their well-to-do counterparts have easy access, as 'sustainable inequity'. In South Africa, the level of unemployment can be said to have resulted in the development of 'sustainable inequity'.

While the government's attempts at addressing past inequalities have gone some way towards dealing with this problem, unmitigated cost-recovery procedures seem to be hampering progress. Consequently, despite the strides taken by provincial governments in addressing some of the backlogs in health provision, many people remain without proper access to health information, appropriate health facilities and funds to access services where these are too far from their places of residence.

The historical exclusion of Africans from services provided by the state has led, among other things, not only to their inability to access state institutions, but also to a lack of information on how to prevent illness and treat serious illnesses. The long distances to available facilities, the problem of overcrowding and the shortage of essential medicines colour people's image of the health services being provided to them. With better co-ordinated national health-services provision, better funding for facilities, particularly to rural communities, and better resources (including staffing, management, equipment and medicines), health provision to rural communities will improve.

Conclusion

It is obvious from the findings that the majority of illnesses in the study areas were caused by unhealthy lifestyles. Therefore, knowledge on how to lead a healthy life could go a long way towards reducing the burden of chronic diseases in South Africa. Individuals, especially heads of families need to be informed, about what to do if a family member contracts a disease. Special attention needs to be paid to people who are ill but not doing anything to treat their illnesses. Almost 8 per cent of adults and the elderly who were ill reported that they were not doing anything about the illness. Lack of funds and the clinic/hospital being far away are the main reasons given for people not seeking medical assistance. It should be noted also that the proportion of ill respondents who said that they believe their situation cannot change or that their religious beliefs do not allow them to visit clinics or hospitals is not negligible. These explanations were reported in another recent study conducted in KwaZulu-Natal (Mturi et al. 2003b).

Coping with deaths

Overview

A discussion on how people cope with deaths needs to understood within the context of how, when death nears and finally arrives, these practices are informed by people's cultures and religious beliefs. For most people, when a person is seriously ill, those around show support for the sick person and provide comfort to the members of his or her family. While the community can and does provide emotional and other support, the socio-economic conditions of many of these families are such that people cannot provide the kind of financial support they would like to provide. When that happens, as will be shown later, people appeal to various sources of support, including friends, relatives and the government.

Funeral ceremonies

Often, funerals are very expensive and not many families can afford, or raise sufficient funds, to bury a deceased family member. The costs of burials are generally covered by burial societies, which have been established in many communities. The survey shows that 54.2 per cent of families whose head is an adult, and 72.8 per cent of those whose head is an elderly person, have joined a burial society providing cover for the family. The breakdown by population group is given in Figure 16.6. There are disparities by population group: while just over 50 per cent of adult Africans said that their family had some form of burial cover, this was so for 80 per cent of whites, over 60 per cent of coloureds and just below 50 per cent of Indians. It is clear from Figure 16.6 that the groups that are more vulnerable to financial shock as a result of death are Africans and Indians.

Figure 16.7 indicates that the families of the elderly responded in a similar manner to whether or not they had burial cover. It is surprising to note that those families of which the head is an elderly African or coloured person are most likely to have cover (over

Figure 16.6 Adult-headed families with burial society cover

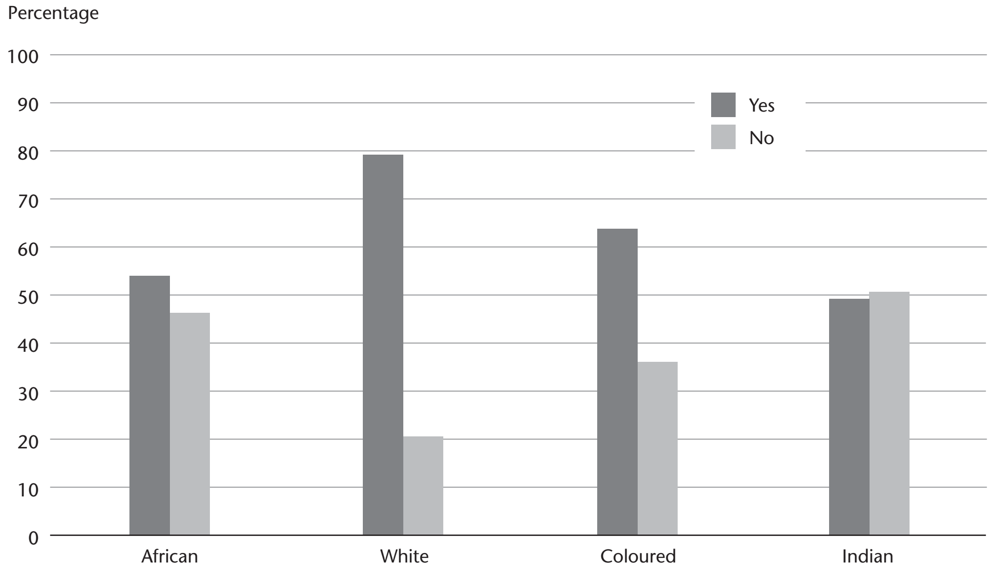
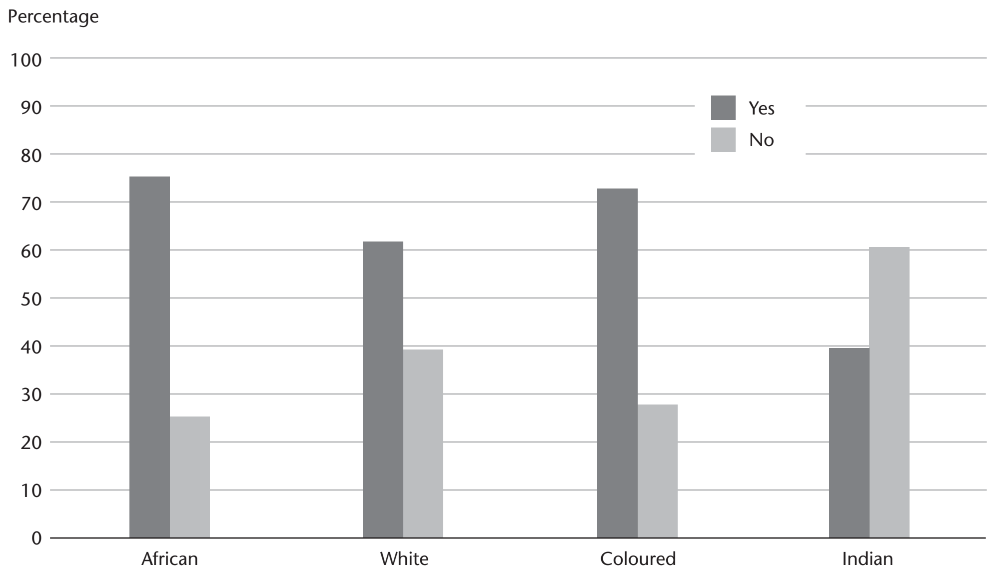


Figure 16.7 Elderly-headed families with burial society cover



70%) and Indians are the least likely to have cover (less than 40%). The reasons for the differences in having burial cover between adult-headed and elderly-headed families are not very clear, but it seems likely that Africans are more concerned about preparing for death at advanced stages of their lives. Many, respondents gave responses such as:

> There is a burial society that collects money from people every month in this area. If you have joined it, it becomes easy to bear funeral expenses. (IDI, woman, rural KwaZulu-Natal)

When asked how much their families have to contribute towards burial cover, the amounts varied widely. The lowest was R5 and the highest was R6 000. Disparities among adult-headed and elderly-headed families were observed (see Tables 16.4 and 16.5). While the median contribution was the same (R50) for the two types of family, the mean was R102.68 for adult-headed families and R86.50 for elderly-headed families, showing that the disparities are mostly among adult-headed families. Table 16.4 shows that, on average, white families spend more on burial cover than all the other groups. They are followed by Indians, then coloureds and lastly Africans. When the information in Table 16.4 is combined with information in Figure 16.6, it is clear that Africans contribute the least towards burial cover, and the numbers of those who do not contribute at all are among the highest among Africans. This could be an indication of their in ability to afford the premiums. A woman from KwaZulu-Natal summed up the reasons for not having burial cover:

> There are those people who do not have them [burial societies] because people do not have equal power. You cannot have a burial society if you are not working. (IDI, woman, rural KwaZulu-Natal)

Table 16.4 Amount paid by adult-headed families towards burial cover (R per month)

	Mean	Number	Std. deviation	Minimum	Maximum	Median
African	78.65	1 224	217.4	5	6 000	50
White	222.68	77	124.9	14	550	200
Coloured	139.61	44	152.5	26	900	100
Indian	209.28	174	484.8	15	5 600	105
Total	102.68	1 519	262.4	5	6 000	50

A consequence of not having burial society cover is that one is buried in a manner that brings shame on the family. The following are examples:

> If you do not have a burial society, you are out. You are folded with a mat or a blanket and buried. (IDI, woman, rural KwaZulu-Natal)

> If I die now, people will try to get a car to take me to the mortuary and keep me there until the day of my funeral. If there is no money for doing that, I am buried the following morning. (IDI, woman, rural KwaZulu-Natal)

Table 16.5 shows that, on average, families headed by an elderly Indian person spend much more money per month on funeral benefits than all the elderly-headed families of the other groups. The next highest group are white families (R95), followed by coloured families (R77). Those families headed by an elderly African are the lowest, with a mean contribution of R69. It should be noted, however, that only 20 Indians responded to this question and a few of these were contributing high amounts which inflated the mean.

Table 16.5 Amount paid by elderly-headed families towards burial cover (R per month)

	Mean	Number	Std. deviation	Minimum	Maximum	Median
African	69.04	645	283.6	5	5 000	50.0
White	95.21	14	54.0	30	200	84.5
Coloured	77.00	8	50.7	10	150	73.0
Indian	660.05	20	1 508.9	20	5 000	74.5
Total	86.50	697	382.7	5	5 000	50.0

When the adult-headed families were asked whether they could afford death-cover premiums, 58.6 per cent said they could comfortably afford them, whereas 40 per cent said they could afford them with difficulty. For the elderly-headed families, 46.4 per cent could afford them comfortably, while 52.2 per cent could afford them with difficulty. A tiny number of each type of family said they could not afford the premiums. Figure 16.8 shows that over 20 per cent of Africans indicated that they struggle to keep up with premium payments, and almost the same proportion said they could afford them comfortably. The other population groups, particularly whites, are more comfortable with paying the monthly dues for burial cover. The pattern for the elderly-headed families is similar (see Figure 16.9).

As indicated earlier, in the event that people cannot afford to pay for the funeral of one of their family members, various sources are approached to help with funding the burial. Figure 16.10 shows that when asked to mention the sources they approach for help, most adults of all groups indicated that they get assistance from relatives more than from any other source. This source of funding is greater even than the community, which, in the literature, is normally treated as the best source of funds for destitute members.[4] Figure 16.11 shows that, like families headed by adults, families headed by the elderly receive more assistance from their relatives than from any other source.

The need for assistance with burials is caused by the costs of funerals, which themselves are a result of various pressures that families have to face. Some of the expenses that Africans in particular have to incur are the costs of keeping the body at the mortuary until the weekend, (preferred for funerals so as to accommodate distant relatives and friends), the cost of the coffin, buses to take mourners to and from the cemetery and the purchase of either a goat or a cow, which is slaughtered ceremonially to separate the dead from the living and to introduce him or her to the ancestors. While Africans generally help, and would like to help, with funeral preparations, poverty makes it difficult for some. Such conditions give rise to responses such as:

Figure 16.8 Affordability of burial society contributions, adult-headed families

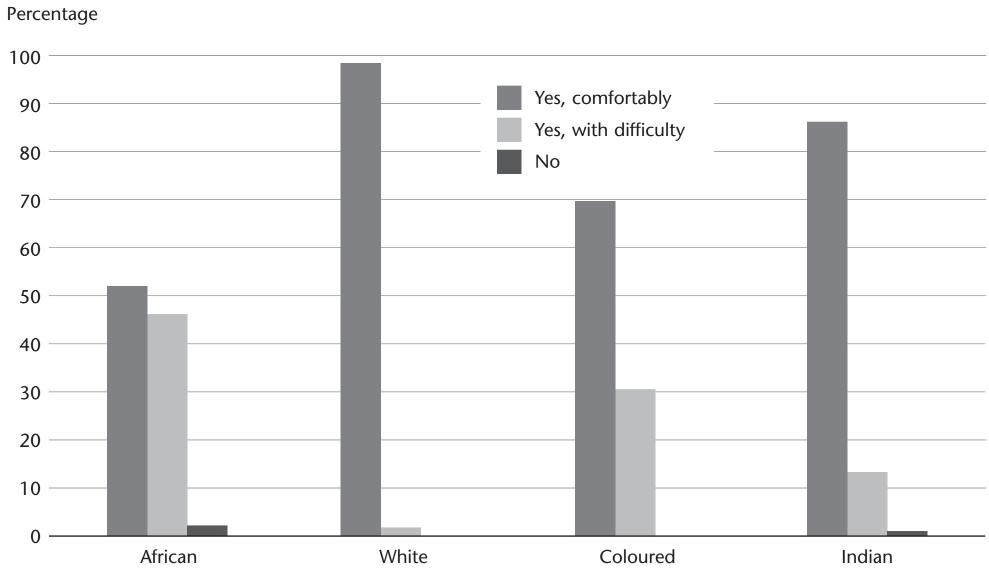


Figure 16.9 Affordability of burial society contributions, elderly-headed families

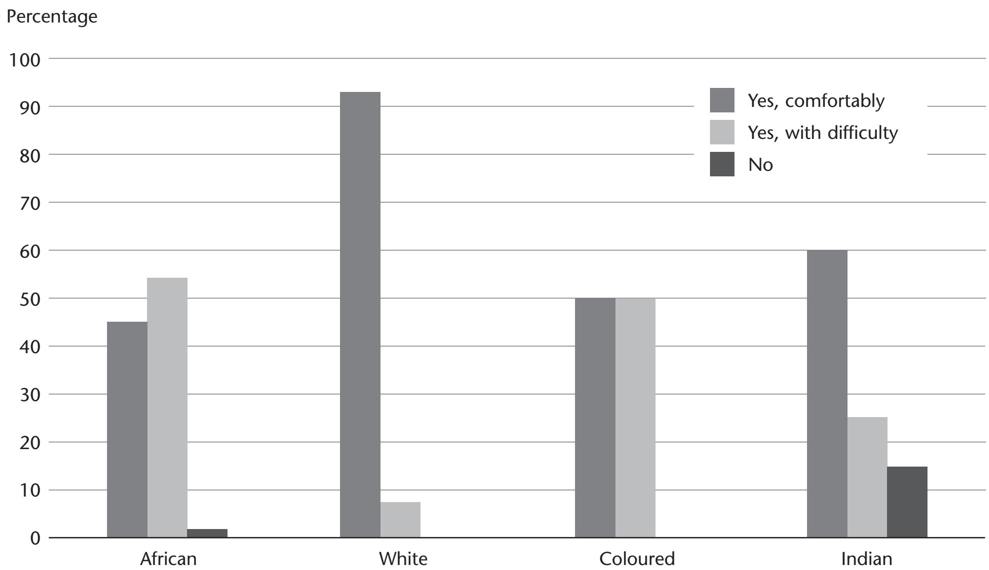


Figure 16.10 Where adult-headed families get assistance with funerals

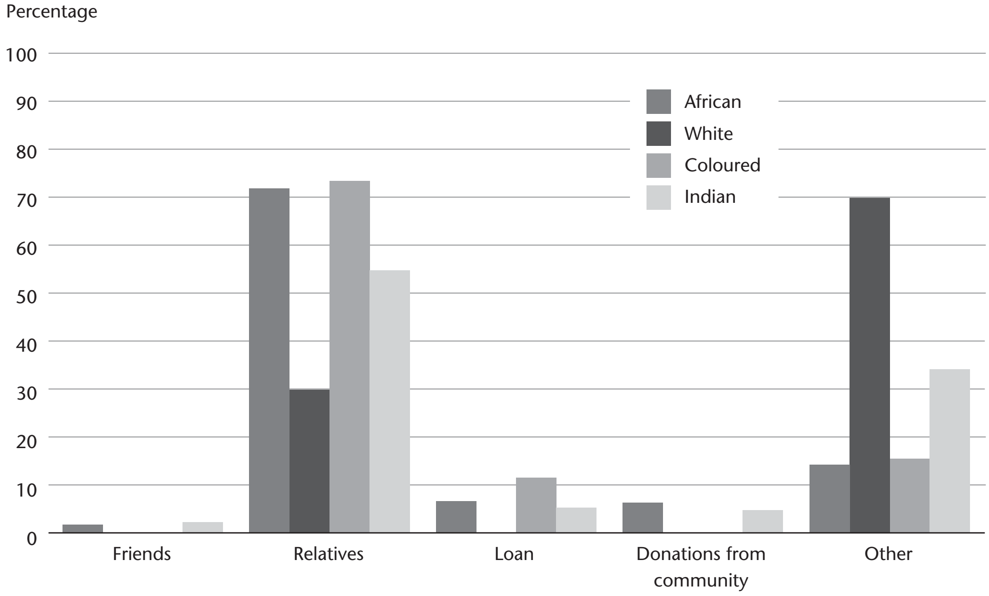
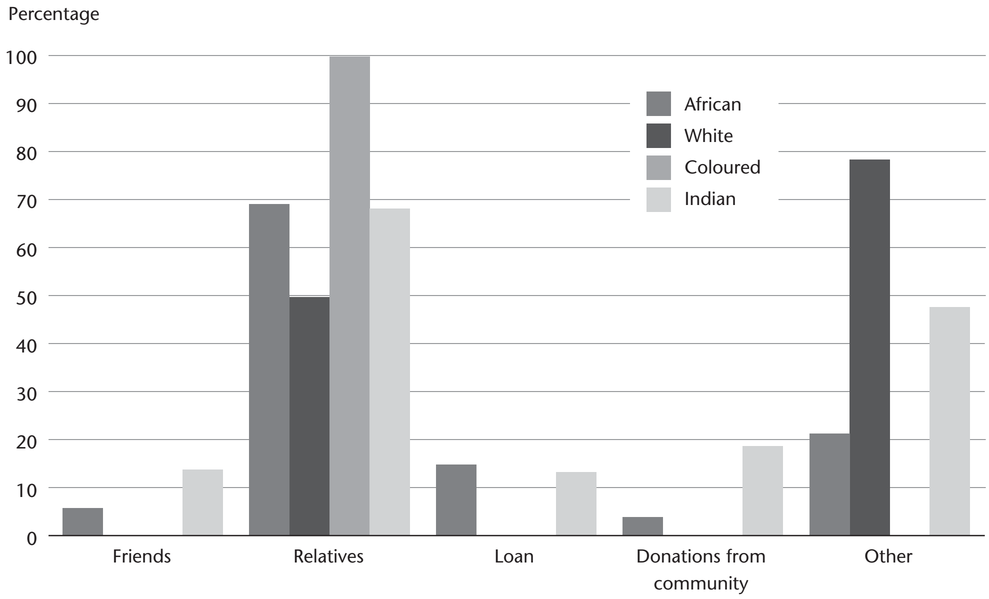


Figure 16.11 Where elderly-headed families get assistance with funerals

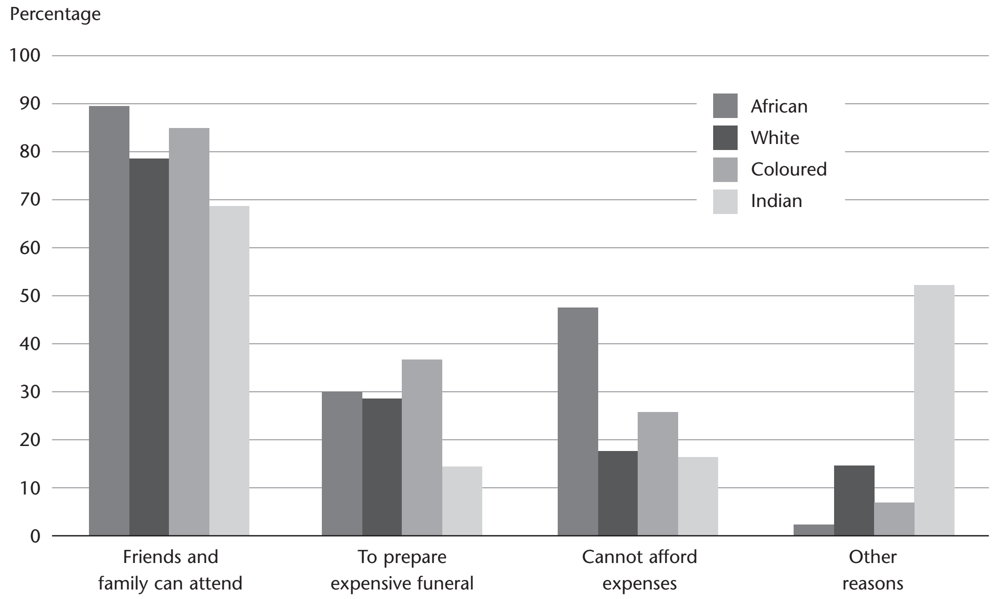


> If you have a society that is the thing that will bury you, we are poor we can't bury you. (IDI, woman, rural Limpopo)
>
> There is nothing [that the community helps with] because my dead person becomes my responsibility. (IDI, woman, rural KwaZulu-Natal)

The survey shows that 77.7 per cent of the adult-headed families bury their deceased within one week after death. Almost 9 per cent reported that it depends on the circumstances, while 13.5 per cent said they wait for two weeks.

There are many reasons why burials can be delayed. Figure 16.12 shows that most adults among all groups indicated that the length of time it takes to bury the dead has to do with the time it takes for relatives and close friends to arrive for the funeral. Another set of pressures that families have to deal with is the need to put together what is considered 'an expensive funeral'. This notion is common enough for many adults to have responded positively to this question.

Figure 16.12 Reasons why adult-headed families delay burying their dead



The pressures to present 'an expensive funeral' have pushed up the cost of funerals to such an extent that more people find themselves unable to afford funerals. Table 16.6 shows the cost of holding a funeral for all groups. On average, it costs white people about R9 194 to bury their dead. For coloureds, it is about R7 087, for Africans about R6 935 and for Indians about R6 459. While the amounts paid by Africans and Indians appear relatively lower, the extent of unemployment and poverty among these groups means that many people cannot afford these amounts.

Table 16.6 How much adult-headed families pay for burial ceremonies (R)

	Mean	Number	Std. deviation	Minimum	Maximum	Median
African	6 934.5	2 233	4 743.9	10	50 000	6 000
White	9 193.8	97	6 214.0	2 000	60 000	8 000
Coloured	7 087.0	69	3 138.9	1 000	15 000	7 000
Indian	6 459.0	363	3 708.6	300	30 000	5 000
Total	6 949.0	2 770	4 668.0	10	60 000	6 000

Recent studies indicate that, in some cases, funeral costs are unaffordable. Booysen et al. (2002) have indicated that the costs of such activities and functions have gone far beyond the reach of ordinary families. They found that the median cost of funerals among the households of communities affected by HIV/AIDS in Welkom and Qwaqwa in Free State Province was between R4 000 and R5 000 in mid-2001 and between R3 000 and R4 000 in late-2001. In some communities, as was the case with the ones visited in our study, most people do not have or cannot afford insurance policies. In such communities, burial societies were set up to assist the bereaved family to cope with unexpected costs imposed on them by the death of one of their members.

However, since contributions to burial societies depend on employment, and since the status of the funeral signifies the status of the deceased or his or her family, the effects of unemployment, particularly in rural areas, are such that many families are not able to keep up with contributions:

> It [the status of your funeral] depends on the burial society that the deceased belonged to because you must also contribute some five cents [save] and prepare yourself for an unknown time. If you had been doing that, it is not the same because you can try. If you had not joined, what do you do? It becomes very bad but people collect money so that you could be buried. (IDI, woman, rural KwaZulu-Natal)

When there is a death, such families have very little to rely upon. The funeral is normally an experience where cultural symbolism and expression get shared among those present. However, poverty and the seemingly rising rate at which people are being buried have presented formidable challenges to the manner in which people assist one another and the manner in which funerals are conducted.

The way in which funerals are carried out has changed drastically. The influence of urbanisation has resulted in people opting for expensive funerals and procedures. However, the poverty of rural areas has not only changed the ability of people to afford funeral expenses, it has changed their ability to help their neighbours during the time of bereavement. To a certain extent, burial societies help to ensure that people can afford funeral costs. However, unemployment and the rise in the number of burials per week are threatening to bankrupt many burial societies.

Conclusion

This chapter has examined how people cope with illnesses and deaths in KwaZulu-Natal, the Eastern Cape and Limpopo. It presents results obtained from a UN-funded project studying how family structure and composition have changed in South Africa and how families cope with those changes. One of this study's objectives is to explore how people perceive illness and death in the era of HIV/AIDS. This chapter is based on part of that broader study. It was noted that many major health problems in South Africa are a result of a long period of exposure to unhealthy diets, lack of exercise and stress. The three leading illnesses of respondents in this study are hypertension, diabetes and arthritis. The study has shown that the majority of the population, including Africans, visit clinics and hospitals for medical assistance. These results contradict findings obtained elsewhere that show that Africans mainly visit traditional healers.

It is sad to note that 8 per cent of those who are ill are not able to visit clinics and hospitals because of various reasons. This is a group that needs to be targeted. The easiest subgroup to address for change is that category of people who have financial difficulties in paying for transport and medical services. Efforts should be made by the government to assist poor people who are ill but do not have enough funds to pay for medical expenses.

It is African tradition to have a proper ceremony to bury deceased loved ones. In order to manage the costs involved, people have set up burial societies, but not everyone can afford to join. Perhaps it is time to assess various activities that take place during funeral ceremonies. Is it really necessary for a poor family to keep the body for more than two weeks, during which time relatives and visitors have to be fed and entertained? Is it necessary to hire vehicles, kill a cow, and so on, even if you cannot afford it? Costs could be reduced dramatically if families did things that they can comfortably afford, and ignored those activities that they cannot manage.

It would be interesting also to examine the differentials addressed in this research by place of residence. It is likely that differentials by the three provinces under study and by rural/urban residence do exist.

Notes

1 This is part of a larger study on 'Understanding the changing family composition and structure in South Africa in the era of the HIV/AIDS pandemic'. This 'family structures study' is funded by the African Social Research Programme of the United Nations Population Fund.

2 We are also aware of other types of disease (such as diarrhoeal diseases, TB, asthma, sexually transmitted infections and malaria) that affect the South African population but are not necessarily caused by lifestyles.

3 The qualitative study indicated that there were families visibly headed by children. The distribution of households suggests that the coverage of child-headed households is very low.

It should be noted also that each household was investigated as to whether it was comprised of one family or more than one. Information was collected for each family in the household.

4 Domingues (2002) found that burial societies and church organisations were two of the means that poor people used to get out of poverty. This section looks at the role of these societies in assisting people to carry the burden of funeral costs.

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17 Are condoms infiltrating marital and cohabiting partnerships? Perspectives of couples in KwaZulu-Natal, South Africa

Pranitha Maharaj and John Cleland

Introduction

As the HIV pandemic continues to spread in many parts of the world, the focus of family planning programmes has shifted from an emphasis on pregnancy prevention to include disease prevention. Motivated by demographic objectives, many family planning programmes in the past promoted the use of longer-term, 'more effective' family planning methods such as injectables and sterilisation, with little or no attention to protection against sexually transmitted infections (STIs) (Awusabo-Asare 1995). However, with the advent of the HIV epidemic and the link between STIs and HIV, there is a growing awareness of the need to protect sexually active individuals against the dual risks of unplanned pregnancy and STIs (including HIV/AIDS).

More than 20 years into the pandemic, apart from abstinence and mutually monogamous relationships between uninfected partners, the use of condoms remains the most effective strategy for preventing the sexual transmission of HIV and other STIs. A recent National Institute for Health report on condom effectiveness concluded that correct and consistent use of male latex condoms effectively reduces the risk of HIV infection in men and women, although incorrect or inconsistent use, breakage and slippage inevitably reduce effectiveness against HIV transmission (Cates 2001). The male condom is also the only widely used device that offers dual protection against pregnancy and disease (WHO 2000).

Over the years priorities have changed. Initially, in the absence of access to effective HIV treatment, the emphasis has been largely on promoting condom use in high-risk sexual encounters, including premarital and extramarital sexual relationships. A fair degree of success has been achieved (Ezeh, Seroussi & Raggers 1996; Kamya, Mcfarland, Hudes, Ssali, Busuulwa & Hearst 1997). By comparison, the needs of married and cohabiting couples have been neglected, despite the fact that in severe, generalised HIV epidemics, many infections occur within marital and cohabiting unions, either because of prior infection by one partner or because of infidelity (Lindan, Allen & Carael 1991; De Zoysa, Sweat & Denison 1996). Indeed, it is likely that many condom promotion campaigns, by reinforcing the association between condoms and illicit relationships, have stiffened resistance to their use within marriage.

Recent surveys indicate that condom use is higher with casual than with regular partners (Preston-Whyte 1999; Adetunji 2000). Both men and women are resistant to the use of condoms in long-term, regular relationships (Worth 1989; Caldwell 1999). This resistance to condoms has been found to be strongly related to their negative association with promiscuity (Caldwell 1999). Both men and women say that asking a partner to use a condom is equivalent to admitting one's own infidelity or accusing one's partner of being unfaithful. The subconscious message their presentation for use delivers is, 'You are not the only one with whom I am having sex' (Worth 1989: 304). The desire for childbearing may sometimes act as a barrier to condom use. Childbearing and motherhood are viewed as an important component of women's role, conferring on them a sense of social identity and self-worth. As a result, condoms may be rejected because they interfere with the natural process of conception (Preston-Whyte 1999).

To date, however, limited data are available on condom use within marital and cohabiting relationships. Moreover, most studies consider the views and characteristics of only one partner, with little or no attention to the dynamics between the individuals. This approach is seen as problematic, for women and men do not act as autonomous individuals, operating independently of their partners (Campbell 1995). Increasingly, it is becoming evident that the dynamics of reproductive processes can best be understood when researchers collect information from both partners (Bankole 1995). Ezeh (1993: 163) argues that 'focusing on the couple offers a unique opportunity to explore how the separate activities and experiences of husbands and wives are unified to produce an outcome'. The purpose of this chapter is to assess the relative impact of men's and women's attitudes and perceptions on condom use, using survey data from married or cohabiting couples.

Context

South Africa has a population of approximately 45 million people (StatsSA 2002), and was one of the first countries in sub-Saharan Africa to experience a national fertility decline (Nkau 1998). In South Africa, contraceptive use is high compared with the other sub-Saharan African countries. The findings from the 1998 *South African Demographic and Health Survey* show that more than 60 per cent of sexually active women were using some method of contraception (SADHS 1999). This contraceptive revolution is occurring in a context of very high levels of HIV infection. The results of antenatal surveys show that HIV prevalence has risen from less than 1 per cent in 1990 to almost 24 per cent in 2001 (Department of Health 2002).

The present study was conducted in an urban and in a rural site in KwaZulu-Natal, the province that has been most severely affected by the AIDS epidemic in South Africa. Both the rural and urban sites are inhabited primarily by isiZulu-speaking people of low socio-economic status. The rural site is situated approximately 80 km south-west of the city of Durban, and the urban site approximately 15 km from the city. Both areas were selected because of high levels of HIV infection among antenatal clinic attendees. In 1998, the level of HIV infection for the rural area was estimated at between 25 per cent and 33 per cent and for the urban area between 33 per cent and 42 per cent (Department of Health 1999).

Methods

Sample design and data collection

The data for the study were derived from a household survey. Within each urban and rural site, four sub-districts were identified and demarcated using cadastral maps. In both sites, five enumeration areas were identified within each designated sub-district and 23 households in each area were randomly selected for the study. In each household, one index adult respondent was randomly selected using a Kish grid. The partners of married or cohabiting respondents were also selected for interview. The survey questionnaire was very similar for men and women. It comprised sets of questions on the following main topics: reproduction; contraception; HIV-related knowledge, attitudes and risk perceptions; attitudes to and use of condoms; and extramarital partnerships. Only a small subset of the available variables is used in this chapter.

A total of 238 couples were successfully interviewed. Of these couples, 60 per cent were married and 40 per cent were not married but cohabiting. In South Africa, marriage is a long and complicated process, usually involving the payment of bride price. As a result, marriage is often preceded by long periods of cohabitation. The participation rates were 70 per cent and 87 per cent for index men and women, respectively, and for partners were 84 per cent and 94 per cent. There were few refusals, though two male respondents refused to complete the entire interview and, as a result, were excluded from the analysis.

At the beginning of each interview, respondents were briefed about the purpose of the interview. Respondents were then asked if they would be willing to participate in the study. Respondents were also assured of confidentiality. In general, each interview lasted approximately 45 minutes. All the interviews were conducted by field staff of the same sex as the respondent. Partners were interviewed separately and in some cases concurrently, but this was not always possible. Since the questionnaire was long and complex, highly competent and well-trained interviewers were needed. For this reason, interviewers with prior experience were recruited and trained. All the interviewers were African and could communicate in the local language (isiZulu). Ethical clearance for the study was obtained from the University of Natal. Though the sample was not designed to be representative of KwaZulu-Natal, the survey data were weighted to take into account the over-sampling of the urban population. Data collection took place from August 1999 to January 2000.

Measures

During the survey, respondents were asked to identify all methods of family planning that they had heard of; if the condom was not mentioned as a response, then a one-line description was provided and thereafter respondents were asked if they had heard of it. Respondents were considered to have heard of condoms if they said that they heard of them spontaneously or after prompting. The outcome variable was derived from a question on frequency of use of condoms (male or female) with the named spouse or cohabiting partner, the response categories being 'always', 'occasionally', 'at the start of the relationship' or 'never'. The explanatory or predictor variables were selected on the basis of a conceptual framework that drew upon social learning theory and the theory of reasoned action (Bandura 1994; Fishbein, Middlestadt & Hitchcock 1994).

Some of the predictors are self-explanatory but the derivation of others requires explanation. Beliefs about the severity of AIDS might influence the extent to which individuals are likely to engage in risk-avoidance behaviour. The perceived severity of AIDS was defined as 'high' if the respondent knew that AIDS was fatal. Knowing someone with AIDS is likely to make the disease more salient in one's life and serves to promote protective sexual practices (Mansergh, Marks, Appleby & Murphy 2000; Adetunji & Meekers 2001). The salience of HIV/AIDS was defined as 'high' if the respondent either had experienced a family member or friend who had suffered or died from AIDS or had attended the funeral of someone who had died of AIDS. Beliefs about condoms – both positive and negative – are also likely to influence condom use. Attitude towards use of condoms within marriage was derived from agreement with three statements: '*It is acceptable for a married couple to use condoms*'; '*It is acceptable for a married woman to ask her husband to use condoms*'; and '*To protect themselves against HIV and STIs, a married couple can use condoms every time they have sex*'. A summary scale was created from these responses and was divided into three categories: favourable, neutral and unfavourable. To adopt measures to reduce their risk, people must also believe that they have the ability to take action to reduce their risk (Tanfer, Grady, Klepinger & Billy 1993). In order to determine an individual's self-efficacy to use condoms, respondents were asked to state their agreement with the following statements: '*There is not much use in trying to prevent HIV; if you are going to get it, you will get it eventually no matter how much you try*' and '*If a wife/husband gets HIV or STIs from outside the marriage, there is nothing the husband/wife can do to avoid getting infected him/herself*'. Respondents who disagreed with both statements were defined as possessing high self-efficacy.

Data analysis

Differences between men and women in knowledge, attitudes and condom use were summarised in tabular form, with application of chi-square tests to determine statistical significance. The relationship between explanatory factors and condom use was assessed using logistic regression. The data were analysed using the Statistical Package for the Social Sciences.

Results

Prevention programmes have been successful at raising awareness of condoms. Knowledge of condoms was high among men and women, as shown in Table 17.1. The vast majority of respondents who had heard of condoms could also identify a source of supply. More than 80 per cent of husbands and wives had heard of the method and knew a potential source of supply. However, knowledge of condoms and a source of supply was lower among women with less than upper secondary education than among other women. Condoms were widely recognised as a method of protection against HIV infection. Women were more likely than men to hold a positive attitude to condom use within marriage. The stratum with higher levels of education was more likely to hold a positive attitude to condom use within marriage than the stratum with lower levels of education. Among both men and women, condoms were seen as more acceptable in non-marital than in marital relationships. Communication on condom use was fairly limited. Less than half of the respondents said that they had discussed condom use with their partners. In general, 68 per cent of couples gave consistent responses about their discussions on condoms. In 19 per cent of couples, both partners said that they had discussed condoms while in 49 per cent both said that they had not.

Table 17.1 Profile of condom use and related attitudinal factors

	Both	Husband only	Wife only	Neither
Knowledge of condoms and source of supply	84.0	11.0	4.6	0.4
Belief in condom efficacy	71.3	17.7	9.7	1.3
Favourable attitudes to condoms	20.8	11.6	27.1	40.6
Discussed condoms with partner	19.1	15.7	16.5	48.7
AIDS is fatal	75.7	12.8	9.8	1.70
HIV/AIDS is salient	19.1	21.6	22.9	36.4
Perceived risk of HIV infection from partner	13.6	8.5	43.0	34.9
High perceived self-efficacy	13.7	19.2	12.8	54.3
Consistent or occasional condom use	9.7	5.0	8.0	77.3

The majority of men and women knew that AIDS was fatal. Overall, men displayed greater confidence in their ability to protect themselves against the risk of HIV infection than women. In general, women were more likely than men to perceive themselves at risk of HIV infection (57 per cent versus 22 per cent). This was because women were also more likely than men to perceive their partner as unfaithful. Not surprisingly, perceived risk of HIV infection was strongly associated with a wife's belief in the infidelity of her spouse (result not shown). Also, men and women with higher levels of education were more likely to report higher levels of self-efficacy (results not shown).

Almost 85 per cent of men and 82 per cent of women reported that they had never used condoms with their partner or had used them only at the start of the relationship. Of the remainder, very few said that they were consistent condom users, the bulk defining themselves as occasional users. Although irregular use offers only limited protection against HIV infection, the low number of those reporting consistent use prompted the combining of the categories 'always' and 'occasionally'. For the analysis, consistent and occasional users were classified as condom users. Consistency of reporting within matched couples was also relatively high (overall agreement = 87 per cent). In 77 per cent of couples, both partners said that they were not using condoms, while in 10 per cent, both said they were using condoms consistently or occasionally. Condom use increases significantly with the level of education. In general, women were more likely than men to report consistent condom use. There can be no doubt that women use condoms for the primary purpose of disease prevention rather than for dual protection. A large majority (94 per cent) of women reporting use of condoms were also practising another method of contraception, notably injectables. This suggests that the motive for using condoms was protection against HIV and other sexually transmitted infections. Also, given the strongly held belief that family planning is the woman's responsibility it is not surprising that the majority of women reported using a female-controlled method for preventing pregnancy. Preliminary analysis shows major discrepancies in husbands' reports of condom use. Of the 61 husbands who reported using the condom for family planning purposes, only 53 per cent reported currently using the condom 'always' or 'occasionally'. As a result, a wife's report of condom use is seen as a more reliable account of the behaviour of the couple, and the analysis that follows is largely limited to the wife's reported condom use.

Predictors of consistent or occasional condom use, as reported by wives, are assessed in Table 17.2. In exploratory analysis, the belief that AIDS is fatal and the salience of HIV/AIDS were found to be unrelated to use and were, therefore, dropped. Because of the extreme difficulty of causal interpretation of the strong associations between condom use and the wife's own attitude to condoms and discussion of condoms with the spouse, these factors were also excluded. However, the husband's attitude to condoms was retained because the aim was to ascertain the extent to which his opposition deterred use of condoms. The unadjusted or bivariate results, presented in terms of odds ratios, indicate that all factors except the wife's age were significantly related to the wife's report of condom use. The wife's education, her perceived risk of HIV infection and belief in condom efficacy were particularly strong predictors, as was the husband's attitude to condoms.

In the multivariate model, the strengths of these associations were attenuated, although their directions remained the same. The adjusted results show that condom use was higher among the urban, more educated than among the rural, less educated. The odds of condom use were also higher among wives with a high belief in condom efficacy, but this relationship was no longer significant. The effect of the husband's attitude to condoms was severely reduced in the multivariate model and was no longer significant. Only one statistically significant effect remained. Women who felt themselves at risk of HIV infection from their husband were more likely than other women to report condom use.

Table 17.2 The odds ratios of reported condom use by wives, results from logistic regression

	Weighted N	Odds ratios & confidence intervals	
		Unadjusted	Adjusted
Age			
Less than 35	139	1.00	1.00
35 or more	99	0.65 (0.32–1.31)	0.99 (0.38–2.53)
Marital status			
Married	142	1.00	1.00
Cohabiting	96	2.35 (1.20–4.61)	1.85 (0.74–4.62)
Place of residence			
Rural	162	1.00	1.00
Urban	76	3.17 (1.61–6.26)	2.25 (0.87–5.79)
Wife's level of education			
Less than secondary	109	1.00	1.00
Secondary or more	129	4.42 (1.96–9.94)	2.24 (0.79–6.37)
Husband's level of education			
Less than secondary	90	1.00	1.00
Secondary or more	148	3.81 (1.61–9.00)	1.98 (0.63–6.16)
Wife's self-efficacy			
Low	48	1.00	1.00
Medium	126	1.06 (0.41–2.76)	1.11 (0.34–3.58)
High	62	2.37 (0.88–6.35)	2.20 (0.62–7.83)
Wife's perceived risk of HIV from spouse			
Yes	135	4.17 (1.82–9.52)	4.03 (1.53–10.56)
No	102	1.00	1.00
Wife's belief in condom efficacy			
Low	44	1.00	1.00
High	194	5.53 (1.30–23.62)	3.65 (0.75–17.82)
Husband's attitude to condoms			
Positive	68	4.29 (1.81–10.17)	1.68 (0.20–1.83)
Negative	84	1.00	1.00
Neutral	79	1.09 (0.42–2.87)	0.60 (0.59–4.78)
Wife's fertility intentions			
Wants soon	18	0.51 (0.14–1.84)	0.57 (0.10–3.36)
Wants later	53	0.24 (0.09–0.69)	0.45 (0.09–2.24)
Wants no more	100	0.34 (0.15–0.73)	1.49 (0.31–7.11)
Undecided	66	1.00	1.00
Number of couples	238		

Discussion

The discovery of antiretroviral (ARV) therapy has meant that tremendous progress has been made in the treatment of AIDS over the last decade. The simultaneous expansion of both ARV therapy and prevention is critical in the long term. Some commentators argue that unless the incidence of HIV infections is dramatically reduced, HIV treatment will not be able to keep pace with all those who need therapy. For example, while the World Health Organization established its '3 by 5' initiative, a project that aims to have 3 million people on ARVs by the end of 2005, 5 million new infections occur each year (Global HIV Prevention Working Group 2004). A number of studies conducted in sub-Saharan Africa report high levels of HIV infection in stable, ongoing sexual relationships (Lindan et al. 1991; Caraël, Ali & Cleland 2001). Obviously, married and cohabiting relationships do not represent a safe haven from HIV infection, and a pressing public health priority is to legitimate condom use within these relationships. The purpose of this chapter is to redress the imbalance by examining condom use within marital and cohabiting partnerships.

It is important to begin this discussion with a cautionary note with regard to the generalisation of the results. Though the two study areas were selected to be typical of low-income parts of KwaZulu-Natal, the sample was not designed to be statistically representative. In addition, the number of couples interviewed for the study was relatively small. Furthermore, one limitation inherent in cross-sectional data is that they are subject to ambiguities of causal interpretation. However, a particular strength of the study design is the collection of similar cognitive, attitudinal and behavioural data from both partners in primary sexual relationships.

In some regards, the results are consistent with those of many other studies in East and Southern Africa. Prevention programmes have been very successful in raising awareness of the methods of family planning. Condoms are widely recognised as a highly effective method of HIV prevention. However, the nature of the sexual relationship does influence condom use. Condoms are less acceptable in marital than in non-marital relationships. Men are more likely than women to express negative attitudes to condom use within marriage. Women feel a greater risk of HIV infection than men. However, the central message is more positive and challenges widely held views that resistance to condoms within marriage is immutable. No direct estimate of trends in condom use is possible, but the pattern of results suggests that the infiltration of condoms in married and cohabiting relationships in KwaZulu-Natal is occurring.

Almost 15 per cent of men and 18 per cent of women reported that they used condoms occasionally or consistently. One would expect a high consistency of reporting among couples because of their daily associations and common living conditions (Miller, Zulu & Watkins 2001). Almost 77 per cent of partners reported that they did not use condoms while 10 per cent said that they did use condoms either occasionally or consistently. There is a high level of agreement about condom use. The aggregate consistency between husband's and wife's reports is impressive and the nature of statistical associations is coherent and convincing, a clear sign that condoms are used in marital and cohabiting relationships. One major limitation of the study is the vagueness of the term 'occasional'. Obviously, it implies inconsistent protection but the degree of protection might range from 10 per cent of coital acts to 90 per cent. Clearly, a priority for future studies is to obtain more precise measures of use. Nevertheless, 'occasional' use does have the positive connotation that use is continuing, albeit intermittently.

The bivariate analysis shows that condom use in marital and cohabiting relationships corresponds strongly with level of education and urban residence. It is possible, as argued by Lagarde et al. (2001: 1407), that 'the association of condom use with education could reflect increased exposure to condom prevention campaigns or greater skills in negotiating condom use'. The key finding, however, is more surprising and interesting. In the multivariate model, the wife's perceived risk of infection from her husband emerges as the dominant predictor of use. The husband's attitude to condoms had no significant net effects on use. Most studies in sub-Saharan Africa have found that men are often the primary decision-makers about condoms and, as a result, women have difficulty negotiating use (Chikamata, Chinganya, Jones & RamaRao 2002). For example, Kapiga, Lwihula, Shao & Hunter (1995) found that the majority of women in their study reported not using condoms because of partner opposition. Even when women are highly motivated to use condoms, they may not do so because of opposition from their partners (Kapiga et al. 1995). However, the multivariate analysis shows that the wife's perceived risk of HIV infection overrides the husband's resistance to condom use in marital and cohabiting relationships. This suggests that women are able to translate their concern about HIV infection into protective behaviour, regardless of the views of the husband.

Several studies have found that perception of risk is strongly related to the increase in self-protective behaviour (Lindan et al. 1991; Adih & Alexander 1999; Akwara, Diamond & Madise 2001). This is largely because the adoption of protective behaviour is unlikely to occur unless the person is aware of the risk. Prevention programmes have an important role to play in creating greater awareness of the risk of HIV infection within marital and cohabiting partnerships. Indeed, the advent of ARVs and the expansion and integration of voluntary counselling and testing into health systems are also likely to lead to a more accurate assessment of risk of HIV infection.

As noted, the promotion of condoms within stable relationships has been a neglected element in HIV prevention strategies, largely because of a widely held belief that resistance is too strong to change. The results suggest that some couples are willing to use condoms at least some of the time if they perceive themselves to be at risk of HIV infection from their partners. By showing that modification of behaviour in response to HIV has actually started in KwaZulu-Natal, we hope that prevention programmes will be encouraged to broaden their focus to more effectively meet the needs of married and cohabiting couples.

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18 Framing the South African AIDS epidemic: a social science perspective

Eleanor Preston-Whyte

Introduction

There is little doubt that in the years since it assumed power, it is in the AIDS arena that the record of the new South African government and its senior leadership has almost consistently been, at best, ambiguous and, at worst, tragically wanting. Consequently, the governmental response to the AIDS epidemic has been controversial, divisive and, for many of its supporters, bewildering, inexplicable and deeply distressing. It is appropriate that 'ten years on' in both the South African epidemic and the history of the country and the new government, South Africans reflect not only on past failures, but on how to address these as swiftly as possible. I argue here that an important part of the latter process must be to approach the epidemic from more than the usual, predominantly medical perspective. In Chapter 19, Whiteside and Lee provide a devastating analysis of the effects the epidemic will have on the country's economy. Here I draw attention to the broader structural conditions that have accompanied and exacerbated the global spread of the epidemic and from which this country and much of Africa is not immune. These, by implication, go a long way to account for the hold it has been able to establish on the continent. Important also, though often largely neglected, is a comprehensive understanding of how ordinary people are reacting to the appearance of the frightening new crisis that HIV/AIDS presents in their lives and how they seek to cope with its demands. I hope in a small way to allow their voices to be heard alongside those of the country's leadership, the medical profession and the health-care providers responsible for the treatment and care of those infected and affected by AIDS both now and in the future.

A new beginning?

As the horrifying and tragic statistics of death and morbidity in South Africa reveal themselves ever more fully (Barnett & Whiteside 2002; UNAIDS 2004; Abdool Karim & Abdool Karim 2005), and so justify the worst and most ridiculed prognoses of the early years, it may yet be possible to make a new beginning in this country. There are clear signs in many quarters of government both of an acceptance of the gravity of the situation and of concerted and sincere efforts to provide adequate care and support for AIDS sufferers. This is supported by a wide range of NGOs, CBOs and by an increasing variety of the organs of civil society. At the same time, although far from extensive in coverage, the slowly increasing availability of antiretroviral (ARV) treatment in both the public and private sectors has provided hope to those who are infected and affected by HIV and AIDS. This has also raised the morale of the country as a whole, despite clear evidence of ever-rising mortality and infection rates (Department of Health 2003) and the still largely unresolved presidential stance on the link between HIV and AIDS.

Given commitment from many senior national and regional health providers and from large sections of civil society, the task that now faces the country is nothing less than imagining, and then building, a new society. It also entails reorganising much of the health system to accommodate the continuing devastation of the AIDS epidemic amid the competing demands of a multitude of other health problems. As such, the challenge is developmental in the broadest sense and, in the last resort, is a matter of political will and leadership at many levels, and particularly at those in which the allocation of the country's human and financial resources are decided.

For a government committed to democratic values, HIV/AIDS presents a major challenge to ensuring basic human rights and equity for all citizens in accessing AIDS care and treatment, and also in providing the knowledge and means for protection from future infection. Whiteside and Lee's chapter provides a level-headed and comprehensive assessment of the socio-economic challenges of HIV/AIDS that now face the government and country as a whole. At the conference panel to which the original versions of their chapter and this one were presented, the challenges of AIDS to medical science and to South African AIDS activists, both currently and in the recent past, were addressed by Professor Salim Abdool Karim and Dr Mark Heywood, both recognised leaders in their respective fields. The gist of their contributions is available in numerous recent publications (see Heywood 2005; Abdool Karim & Abdool Karim 2005). In this chapter, I argue the case for another kind of leadership and understanding – that which is dependent on inserting a broader social science perspective into what are predominantly medical, activist and economic debates. When it comes to policy recommendations, it is currently largely medical models that are most influential. Sometimes, these have been imported from outside the country, and are less than appropriate to local situations (Preston-Whyte 1999).

Some of the material presented in this chapter draws attention to the challenges of developing policies and interventions that are based on an understanding of the local context and of how ordinary people rather than medical scientists interpret and understand the disease and how it affects their daily lives. Universally, HIV and AIDS present researchers and policy-makers with major challenges because infection is directly related to areas of social, personal and sexual life that are regarded as private, and are usually hidden from public gaze. However, AIDS has spawned its own arena of secrecy stemming from the fear of openly admitting being infected, or having infected people in the household. This is because infection and even the suspicion of infection evoke virulent stigma both here and globally (Parker & Aggleton 2003). I consider the interaction of the local manifestations of the epidemic with the observed international realities of AIDS. In doing so, I draw attention to what is being usefully characterised as the 'pauperisation', 'feminisation' and 'juvenilisation' of the epidemic across the globe,[1] and how this recognition is leading to the need for international as well as local advocacy around these issues. I conclude by raising what is in South Africa a sensitive, but increasingly heard, explanatory discourse around the apparent difficulty of introducing protective behaviour change in the face of the spreading epidemic in terms of the apparent intractability of what is referred to as local culture and tradition.

Although merely the tip of the iceberg, I believe these are some of the critical issues to which the voice of social science has much to contribute.

The challenge to the social sciences in South Africa

In the early days of the global epidemic, the response from social scientists, with some exceptions, was not as rapid as it should have been, and this was, by and large, the case in South Africa. By the end of the 1990s, however, momentum had built up in the country to the extent that it was possible to hold a large conference at the University of the Witwatersrand, at which over 100 papers were delivered on the social, cultural and historical context of the epidemic in the country. These papers encapsulated the experiences of the last decade of academic researchers, activists and NGOs, and represented a landmark for social science in the country. The conference also provided a meeting ground and opportunity for many people who had been working largely in isolation, to meet and talk to others in the field. The discussions and the volume that emanated from the conference, and which, like the conference itself, was entitled *Aids in Context* (Delius & Walker 2002), set the tone for much of the social research and intervention in the following few years. It drew wide attention not only to the behavioural complexities of the epidemic, but also to the fact that HIV/AIDS requires a multidisciplinary and a multi-sectoral perspective if it is to be successfully understood and contained. The same is proving true in the successful planning and execution of behavioural intervention strategies at both the individual and community levels. The importance of gender and power relations in increasing the risk of contracting HIV was highlighted, and issues of the silences around sexual behaviour and gender violence in relation to AIDS and AIDS stigma were aired in the country largely for the first time. In general, the conference also served to alert journalists and to some extent the public and some potential funders to the fact that AIDS presents as great a challenge to social science as to medical science. It also foreshadowed the call to 'break the silence', which came to dominate a subsequent international AIDS conference and, later, a South African conference on 'Sex and Secrecy' (2004), in which secrecy and stigma around HIV/AIDS received considerable attention.

Hidden pleasures and increased vulnerabilities

For researchers and interventionists, exploring and 'breaking the silence' meant – and still means – entering what were, and are still, largely unexplored, taboo and heavily policed terrains of human action, experience and thought. These include the highly charged and traditionally 'private' arenas of sexuality and desire. Even the adjectives used in discussions of these arenas, both by laypeople and often, unfortunately, by unwary academics, flag negative attitudes to many of the behavioural nuances and manifestations of sexuality revealed by early journalistic 'fact finding' and later by some researchers. Words like 'unnatural', 'abusive' and 'irrational' abound in the discourses. Moreover, words and phrases like 'incest' and, more recently, 'virgin' and 'baby rape', are loaded with meaning and often implicit condemnation. Successful intervention must include understanding, if not necessarily tolerance or acceptance.

Because a good deal of recent social research in HIV has revealed previously hidden and 'private' behaviours and pleasures, even to obtain funding and to obtain permission from protective and challenged gatekeepers to pursue such studies was, from the first, invariably problematic. The situation remains much the same in many quarters today. Thus, in the early days of the epidemic, the act of calling for sexuality education, let alone free distribution of condoms to adolescents, was greeted by a storm of protest and, on occasions, vilification. Even now in some quarters, advocating the use of condoms is controversial. In others, while countenanced, the emphasis is upon limiting the number of sexual partners each person has, and delaying sexual debut as long as possible and, ideally, until after marriage. In South Africa, where marriage is delayed until well over 30 years of age and many women bear children and rear them outside of marriage, this is not always feasible or realistic. There is, however, a widespread call in many places for a new morality based on the realities of HIV/AIDS. Here the tenets of influential churches and of long-standing – some would say traditional and outdated – moral standards that today are hard to achieve in practice vie with the pressing realities of many people's lives. Women, and poor women in particular, are vulnerable due to lack of education, financial support and the scarcity of opportunities for long-term, reasonably well-paid employment. Fortunately, there is now general agreement that information on high-risk behaviour should be universally available, and protection made accessible to all who want and require it. The controversy now rages over what this protection should be and, indeed, AIDS activists and others are pointing out that some of the more conservative measures advocated may, themselves, have negative repercussions for hard-won gender equality, human rights and the status of minority groups (Scorgie 2002). The latter include stigmatised sections of the world and of regional communities. Paradoxically, protection against AIDS risk has opened the gates to the possibility of the marginalisation and victimisation of vulnerable people. The ever-present human tendency to divide the world into 'us' and 'them' has proliferated and entered the AIDS arena to create new divisions and solidify existing ones.

Issues such as these are making the task of the social researcher ever more complex and demanding, not only in terms of the development of new research methodologies that are at once sensitive to the prevailing silences around sexuality and AIDS stigma, scientifically acceptable and productive. These must also meet the highest of ethical standards and chart new ethical pathways through a multitude of ethical considerations that HIV/AIDS research and its publication have brought in their wake. These are not issues that I have time to pursue here, but they are receiving a good deal of attention in many academic circles from both social and, more recently, medical scientists who have been alerted to the possibility that 'harm' to research subjects may, in the case of HIV and AIDS infected and affected people, extend beyond what is normally covered by standard medical expectations of 'informed consent' (Abdool Karim, Abdool Karim, Coovadia & Susser 1998; Abdool Karim 2000; Beyrer & Kass 2002; Benetar 2002; Simpson 2004).

The terrain of ethical behaviour for researchers should be interpreted to include an injunction to make their findings known and accessible as widely as possible. This means not only writing in academic journals with limited and specialist circulation, but recognising the responsibility to discuss research findings with the widest possible lay audience. Of particular importance is making the effort and time available to report findings to research participants and to policy-makers and those who have the potential influence to bring about policy change and alterations in lay and professional circles dealing with the epidemic. This must be done in a balanced and non-judgemental manner on public platforms and in the lay press and media. In some cases, such a course of action will touch on aspects of human behaviour that are not normally talked about openly but which endanger life in the era of HIV/AIDS. This, in itself, may raise public opinion against the researcher concerned and possibly have negative repercussions for the research endeavour itself. In some cases, it may mean engaging actively with public misconceptions about the epidemic and the social factors that exacerbate its spread. With these strictures and preliminary remarks on the work and potential role of social science in the epidemic, I turn to consider some of the major characteristics of the epidemic, at both the global and local levels, to which social scientists have drawn attention.

Global versus local realities

A comparative reading of the ever-growing literature on HIV and AIDS across the world indicates a number of striking commonalities. It is important to list these, but I do so with the caveat that in each region or country they tend to be combined differently, and they interact in different ways, both with each other and with local contextual factors. While it is useful for clarity of analysis to distinguish between the global and local levels, in practice, as the growing social science literature attests, it is often difficult to isolate them completely. Trends and decisions made at the international level often have important implications for the manner in which issues play out within specific countries and regions, and international pressures as well as funding streams have major impacts on the course of events at the local level. At some point, however, it is individuals and local communities who feel the impact of forces of which they may have relatively little understanding. Perhaps the most striking example of this is that many of the scientific advances in understanding the epidemic and in treatment and care derive from the work of internationally trained scientists in laboratories situated in the North. It is true that many of the drug trials are held in developing countries (a source of continuing controversy in itself), but this has not necessarily meant that the benefits of this research have been speedily felt in the developing world, including South Africa. This has led to massive inequities in access to care between North and South (Benetar 2002; Preston-Whyte & Bodasingh 2003). Pertinent currently is the fact that international funding for ARV treatment saves lives without the local recipients in many developing countries being fully aware of the source of this funding, or understanding clearly the reason for sudden shortages of treatment or drugs due to the withdrawing of, or changes in, funding streams globally. All these factors serve to increase the feelings of widespread personal helplessness and vulnerability at the local level, to which I will draw attention later in the chapter. In a few instances, events at the local or regional level may have international reverberations. This occurs when crises at the local level become widely known, often through the media but also through effective mobilisation and campaigning, and so prick the conscience of the international community, leading to some form of remedial action. Such events are, however, relatively infrequent and their effects may last only as long as global attention remains on them.

To social scientists, global realities present themselves as what may be referred to as macro-structural vulnerabilities that operate and are determined largely at the national and international levels. In the absence of mass mobilisation, these are outside the control of the individual and, if they are recognised at all, are largely perceived as such. At the local level, the experiences and reactions to the epidemic may be similar in some respects, but tend also to differ widely from situation to situation. Taken together, however, the two levels, global and local, at which HIV/AIDS operates contribute to what is often referred to as an increasing trend toward a pauperisation, feminisation and juvenilisation of the AIDS epidemic in both the developed and developing world. Currently, these three words are providing an easily accessible clarion call to international action and, it is hoped, to co-operation and collaboration toward this end. They provide also an apt and appropriate slogan for international advocacy around treatment and the maintenance of human rights. In what follows, they are used to frame and organise a summary of the commonalities that a close reading of the growing international literature on HIV and AIDS suggests. I have attempted to summarise the major points in Figure 18.1. As suggested already, none of the factors explored below operates in isolation, either of each other, or of other regular cross-cutting influences such as that of gender and often age and personal status. In this, the holistic perspective adopted by many social sciences can and does add important insights to a full understanding of the spread of the epidemic.

Poverty, hunger and underdevelopment

Poverty and economic underdevelopment, the latter often exacerbated by global restructuring, appear repeatedly to accompany the rapid spread of HIV infection. Although the rich and comfortably off are not immune to the disease, poverty and particularly the process of becoming poorer as an individual or a family or at a community level (pauperisation) force people, especially women and increasingly children, into high-risk behaviour as the price to be paid for survival. This is predominantly economic survival, with sex (often without condoms) for cash as its coinage. It can also mean agreeing to

Figure 18.1 Structural vulnerabilities associated with the global spread of HIV/AIDS

Structural vulnerabilities

Poverty, hunger, underdevelopment
Lack of education
Limited access to health care
Population mobility and migration
War, internecine fighting, xenophobia and ethnic conflict

↓

Refugees and forced resettlement
Local and international migration

high-risk sex in return for longer-term physical protection or to avoid violence or sustaining direct physical (and sometimes mental and emotional) harm (Preston-Whyte, Varga, Oosthuizen, Roberts & Blose 2000; Walker & Reid 2004). Men are similarly affected if their jobs or the conditions under which they work and live entail situations where risky sex is inevitable for protection as well as, or in addition to, earning an income (Niehaus 2002; Lockhart 2002). Given the realities of gender relations in many developing societies and certainly in large sections of South African society, however, numerically it is women and especially young women who are rendered at highest risk. This is borne out by the recent South African statistics on HIV infection and mortality, which attest to increasing feminisation of the epidemic. Although the risks associated with gender have led to the design and implementation of programmes to empower women and, latterly, to involve men in campaigns against the epidemic, it seems likely that women will remain vulnerable on this score for a long time. This, of course, remains characteristic also of the epidemic in other developing countries. Poverty itself, however, exacerbates the situation of risk for everyone, as HIV-positive women may infect their male partners and, in the absence of access to ARV treatment, when giving birth, their babies also.

Education

Implicit in the above discussion are two important factors that appear to increase the spread of HIV. The first is lack of education for women and the second is the access they and men also have to adequate health care. In the case of women, a particularly important factor is access to treatment and care if they are infected and become pregnant. An increasing number of studies (and not only those in HIV/AIDS) link women's education with the increased welfare and health of their children. The direct effects in terms of the knowledge of a universal language, literacy and facility in speaking the language of most doctors and many senior nurses from outside Africa may be important here; so are the general world view, which accompanies being part of a wider global system of information and communication, and the more difficult to pin down and quantify elements of the socialisation process that occur during schooling. In addition, women with no or little education find it difficult to compete for well-paid jobs, both with other women who have been to school and also with most men. This often has repercussions on the money at their personal disposal for feeding and educating their children.

Schooling, in general, can bring financial independence from men, though it may not guarantee it. Neither has it been found to necessarily increase the ability of women to protect themselves from infection through insisting on condom use in long-term personal love and sexual relationships. All things considered, it may, at best, enable women to avoid being forced into sex for survival either for themselves or to support their families and children. In some cases, education may increase perceived material needs (and these may include further education for either themselves or their children). Overall, however, the consensus is that education is a factor in child health and survival, and this may well be the case with protection against HIV infection. It is probably better to have it than not.

Access to health care

In terms of access to health care, in general and in reference to HIV/AIDS specifically, we are dealing with both physical access in terms of hospital or clinic coverage and the quality of the care provided to patients. In South Africa, access to speedy care is not assured, though it is better in towns than in many far-flung rural areas. In both cases, patients may spend long hours and precious funds getting to the health facility where the queues and waiting time are long. Assessments of the quality of care in particular clinics and hospitals tend to rely on the numbers and degree of training of health-care workers. Far more difficult to gauge is the extent of true communication possible between patients and clinic staff, and the latter's understanding of and sympathy for both the patients' own perspectives on their illness and the constraints that patients experience in accepting and adhering to the health messages, advice and treatment received at the clinic. I give some examples below of the possible gaps in the beliefs of patients and the often Western scientific assumptions behind clinic-based messages. Some of the former draw directly on traditional explanations and remedies and the advice of traditional healers who are widely consulted before and at the same time as Western medical sources (Leclerc-Madlala 2002c; Xaba 2002). The latter are invariably derived from and dominated by Western science and, as we will see, offer but little comfort in the face of queries deriving from alternative belief and explanatory systems of health and well-being.

In practice, communication within any health facility is influenced by a host of factors, including a partial or even complete lack of understanding of what an HIV positive diagnosis means other than that it is deadly. In particular, the necessity of following ARV treatment regimes closely is seldom fully appreciated. In some cases, it may be virtually impossible for patients to comply with the instructions they have been given if they have not disclosed their status to family, friends and possibly employers. The existence of stigma is well known to most health providers, but they are often unsure and untrained in how to deal with it. Few have the time during busy clinic hours to listen to and cope with the problems their patients experience, not only with stigma, but with the practicalities of taking the prescribed medicines regularly and correctly. Here the stumbling block may be as apparently simple as a patient not having anyone or even an alarm clock or watch to remind them of the times pills are due. In addition, it is often necessary for pills to be taken during times of travel or when privacy is impossible to achieve.

In South Africa, the dominant challenges stressed by most reviews of health services are lack of coverage, severely limited funding and a lack of well-trained staff to deliver the services that are planned and reflected in policy documents. The 'brain drain', which draws an increasing number of locally trained health personnel out of the country, is also of growing concern as it leaves the country with a scarcity of personnel to maintain the routine functions of the hospitals and clinics let alone a cadre of staff who could be released for special training in the management of HIV and AIDS. Less easily quantified are the problems that revolve around the quality of the service offered in terms of patient/provider communication. These may not even be recognised fully in many cases and are, of course, among the most difficult challenges facing the health authorities. However, without what is regarded as reliable information on the beliefs and challenges facing patients (and staff), senior health officials and policy-makers are not entirely to blame for the situation. Ideally, it should be the role and responsibility of appropriate social science research to provide this in an unbiased and sensitive manner. In many cases, it is very unlikely that brief survey techniques will be sufficient or successful in exploring what are often extremely complex issues with many ramifications. Furthermore, findings may challenge the establishment and the accepted order of doing things in the existing health system. In some instances, the existing training of health-care providers may leave few openings for developing the kind of lateral or innovative thinking that administering or overseeing the complex treatments ARV regimens demand. Outside qualitative research, which combines observation with interviewing both patients and health-care personnel, may be more successful. This was, indeed, the case in a recent qualitative study of the new health system in the Western Cape (Gibson 2000). Although not focused on AIDS, it brought to light the blockages in the new delivery system as well as faithfully chronicling the experiences of patients.

Population mobility and migration

The world is becoming increasingly aware of the potential of personal mobility to spread HIV infection rapidly and extremely effectively. The AIDS epidemic has added a new and potentially deadly dimension to both internal and international migration and also to the occurrence of small and large population movements, whatever their cause. In particular, the role in spreading HIV infection played by war, internecine fighting, ethnic conflict and xenophobia in moving people and disease around the globe cannot be neglected and is now on the agenda of a number high-level international meetings. Solutions are by no means easy to find and, in themselves, may raise a multitude of human rights and humanitarian considerations to add to those that already bedevil the arena. Refugees and refugee populations are at extremely high risk of infection (UNFPA 2002; IOM-UNAIDS 2003), and may present risks to countries offering them asylum. The characteristic rape and sexual violence that accompany the subjugation of defeated populations, as well as the need for women and sometimes men and children to barter sex for food and protection, tell their own story. Although there is a growing social science literature on, and an increasing humanitarian concern with, the general health situation of refugees, the association specifically with HIV and AIDS requires ongoing attention. Attempts or suggestions for intervention, other than the provision of care and treatment, which are taxing enough, are hard to imagine. For the people concerned, day-to-day survival is likely to take precedence over concerns about HIV infection, even if it were remotely within their power to protect themselves. Concerns about risk and the effects of war on the spread of the epidemic lodge at the national and international levels rather than with people on the ground who must strive merely to survive.

Turning to look at labour migration, within countries and regions as well as internationally, we have a diverse and growing literature to call upon, which is both descriptively diverse and highly theorised (Massey, Goldring & Durand 1994; Massey, Arango, Portes 1997, 2000a, 2000b; Koucouci, Pelligrino & Taylor 1998). On the basis of this, it is possible to predict some of the likely impacts that HIV/AIDS will have on migrant populations, their countries of origin and return, and on the regions to which they move. In general, migration, like HIV, is driven and exacerbated by poverty and underdevelopment and specifically by a paucity of local employment and other money-making opportunities. Thus, regular and often large-scale mobility by the poor and aspiring in search of jobs and income is characteristic of developing countries and expanding nations, and has been for many decades (indeed, centuries). In the case of South Africa, what Wilson has referred to locally as 'oscillating migration' (Wilson 1972) was characteristic of the apartheid era when legislative barriers were in place to limit the number of black rural dwellers moving to the cities. Only those able to secure employment were permitted to live in and around urban areas designated for whites. By and large, this labour force was made up of men whose families remained in the country to eke out a living from the land and proceeds of the migrants' work in town. At the end of their long working careers, migrants retired to their rural homes. While labour migration of much the same description occurred and still occurs elsewhere in the world, the South African situation was an extreme and heavily policed version. The inequities involved in the South African migrant labour system and its dangers to public health were well recognised as early as the 1940s and have been much discussed in community health circles ever since. Kark (in Kark & Steuart 1962), for instance, warned of the spread of STDs from urban to rural areas in a classic paper that should have been taken as a warning in the mid-to-late 1980s when a new STD, HIV, began to spread rapidly across the country. He and other rural doctors also commented vociferously on the poor coverage of public health facilities in rural areas and on the toll this was taking on the general health and well-being of the rural population of the time. Despite attempts to reverse this situation after the end of apartheid, the coverage is still wanting and the existing facilities and staff are totally unable to bear the demands of an epidemic of the proportions of HIV/AIDS.

Migration is, of course, by no means limited to the poor, and is increasingly characteristic of highly educated and specialised professionals, bureaucrats, technologists and technocrats who move about and serve the interests of the global economy. In general, however, the long periods spent by migrants away from their families and domestic networks are likely to increase their propensity to form short- and sometimes long-term sexual relationships in receiving areas. Just as in the case of STDs, generally, this increases the speed at which HIV infection spreads. With the advent of HIV and AIDS, the governments of receiving and sending countries are increasingly aware of the health issues raised by migration, as are international organisations such as the International Organisation for Migration. For some years, southern African migration has been monitored by the Southern African Migration Project. This project recently focused attention on the interface of migration and HIV/AIDS and has provided a useful review of the local literature to date (IOM-UNAIDS 2003). While the overwhelming focus of recent research and public concern has been on poverty and the search for employment, and opportunities to earn in international currencies, as critical factors in the spread of the epidemic, mention is also made of the growing phenomenon of international tourism as a probable factor in the spread of infection. In South Africa, as elsewhere in the world, tourism and service provision to tourists meet tragically in the person of the ubiquitous taxi driver and tour operator. In other parts of the world, the figure of the 'prostitute' or commercial sex worker, as well as international networks servicing commercial sex work and trafficking in women, dominate fears about the spread of the epidemic. The example of the Thai government in apparently limiting the spread of HIV in its country through the early control of brothels is often lauded, but is by no means easy is replicate given the very different organisational structures of the commercial sex trade across the world. Some countries seek to screen potential migrants and also immigrants and exclude those with HIV. Such policies are highly controversial, both internally and in the international arena and are generally deemed to be largely ineffective due to the long latency period of the disease and the clearly temporary nature of such provisions. In yet other cases, immigration policy seeks to limit migration from the countries of high infection. This, too, is controversial as it threatens both local and international trade agreements and labour flows. In the long run it also removes the avenue to earning money that migrants now exploit to the benefit of their families and the domestic economy.

As the AIDS epidemic has spread and worsened, its effects on migrants and migration patterns have been noted and commented upon, and the last five or so years have seen studies developed specifically to map these effects. Early trends for migrants to return to their homes to die, and for children and particularly girls to be taken out of school or paid employment in order to care for the dying and take over home care, were noted with considerable concern. The loss in family income and well-being was also noted, and the part played by multiple deaths in pushing households into poverty has become obvious (May, Maluccio & Haddad 2000). Working in rural Thailand, Knodel et al. provided the first clear indications of the burden that care of the ailing placed on the elderly (Knodel & Wassana 2004; Knodel, Chayovan, Mithranon, Amornsirisomboon & Arunraksombat 2005). Indeed, the world over, it is clear that as the young and middle-aged succumb to AIDS, it is the elders and children who bear the brunt of the epidemic. Comments about the juvenilisation of the global epidemic need to be expanded to take into account that currently much of the burden of care falls on the shoulders of the elderly and aging. This reverses the entrenched expectation in the Western world that the responsibility for supporting and leading society lies in the hands of the young to middle-aged. There has been much talk about orphan families and how, with the assistance of kin and neighbours, the children of a family in which both parents die manage to survive as a unit. In many cases, of course, the household and family group disperses and the children who do not and cannot join relatives may move away and survive as best they can, often on the streets of towns and urban centres. This is a form of migration, in itself, which may or may not result in permanent resettlement.

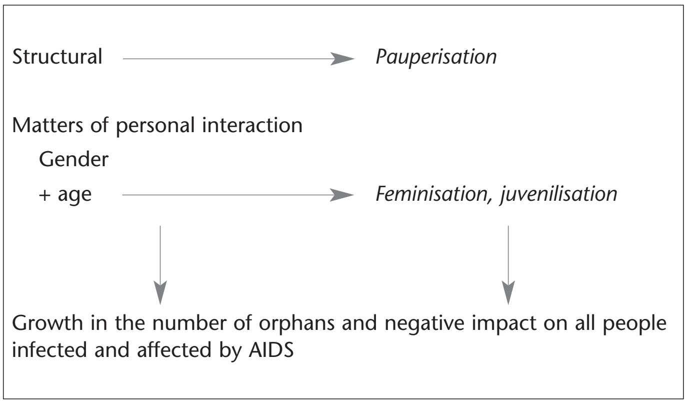
Interactions at the personal level

As distinct from the structural vulnerabilities that it often accompanies and feeds on, HIV/AIDS affects the way people interact with each other in personal, face-to-face situations. These changes and the ambiguities they often reveal (or, more often, serve to hide) are characteristic largely of local-level interactions that, in turn, are guided by broader and conventionally accepted ways of behaving. The latter are often conceptualised and described, by academics and by lay-people alike, as 'culture' or 'tradition'. Listening to how people speak about both suggests that they are invariably assumed to provide major stumbling blocks to behaviour change. In truth, many of these conventions are and have for a long time been changing, not only in the West, but in much of the developing world. In Africa, while manifestly apparent in some arenas, in others change has been slow to come. Unequal gender relations are a case in point, and have been the subject of a great deal of social research and painstaking analysis, as well as active advocacy for more rapid change. So far, however, they have proved as intransigent to intervention as economic underdevelopment, poverty and, indeed, the AIDS epidemic itself (Walker & Reid 2004).

To be more explicit, HIV/AIDS has affected the relationships between men and women in ways that often confirm older and existing stereotypes and expectations of appropriate but unequal behaviour. Fear of the spread of HIV and, on the part of some men, fear for personal safety have been documented as leading to blame being assigned to women as the carriers of HIV infection (Leclerc-Madlala 2001). This has played into the hands of conservative male gender stereotypes, and calls for the greater control of women and a retreat from any relaxation of gendered male control over women and, particularly, young women. In this scenario, a sense of male responsibility for sexual restraint in terms of the number of sexual partners enjoyed, or the use of male forms of protection, remains minimal. It is hardly surprising that little dent is occurring in the prevalence rates of women's HIV infection (Whiteside & Lee in Chapter 19 of this volume) and particularly in the numbers of young women who are infected. A major repercussion of this, apart from the impact on women themselves, is the much-increased vulnerability of babies, children and young adolescents, either to perinatal HIV transmission or to early orphanhood. Hence the characterisation of the epidemic as not only a matter of feminisation but of juvenilisation. The latter leads almost inevitably to social circumstances in which children are put at risk of psychological damage and emotional deprivation, and also of the likelihood of being forced to risk their health and survival in the pursuit of food and shelter. In some cases, grandparents and relatives step in to care for children orphaned by the epidemic but, as time goes on, many of these surrogate caregivers age and die. Although children themselves are growing older and more 'streetwise', they are rendered increasingly vulnerable to HIV and AIDS and the cycle repeats itself.

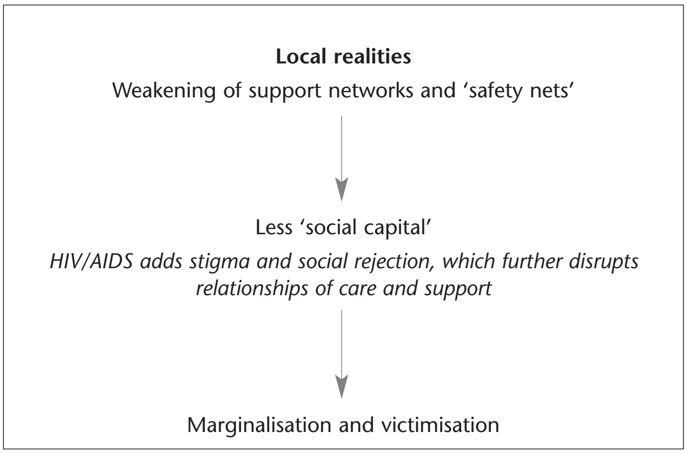
Returning to interrogate more closely the distinction that I drew earlier between the two levels at which the AIDS epidemic operates, we may assign the factors leading to pauperisation to the structural level, while issues of gender and age lead to feminisation and juvenilisation, which together feed into the increase in the numbers of AIDS orphans we are seeing in South Africa and the rest of the developing world. Predictions are that these numbers will rise even further over the next decade, unless radical (and successful) measures are taken to limit the course of the disease. I attempt to represent the interaction of the global and local realities schematically in Figure 18.2.

Figure 18.2 Global and local levels of analysis



The combined result of the two levels at which HIV/AIDS operates is often seen in a progressive weakening of traditional support networks and what, in current academic jargon, is referred to as social 'safety nets' in regions hard hit by AIDS. This, in turn, leads to an overall lessening of 'social capital' (Putnam 1993; Portes 1998; Schuller, Baron & Field 2000; Grix 2001) and less resilience to crisis within these communities and local groups. Exacerbating this is a new set of factors added by the AIDS epidemic itself. The first is the widespread stigma and social rejection that I have already noted to be characteristic of the AIDS epidemic and that further disrupts social relationships of care and support. The second flows from it – marginalisation, and sometimes the victimisation, of not only the individual but whole categories and groups of HIV-positive people (Parker & Aggleton 2003). This process is encapsulated diagrammatically in Figure 18.3, which ends this short discussion of the impact of the epidemic on individuals. I turn now to consider some of the ways in which those most affected interpret and deal with the disease at a practical level.

Figure 18.3 Pressure on established patterns of interaction at the local level



Voices from the epidemic

I have already indicated that I believe one of the objectives of social research in the field of HIV/AIDS should be to gain a sympathetic understanding of what ordinary people are thinking about, and how they are responding to the epidemic. Here I engage briefly with one such explanation, and the actions to which it leads. The explanation is most often used to account for apparent failures to take the advice of Western medical science in matters of HIV protection and, sometimes, AIDS treatment. It centres largely on the supposedly conservative influence on behaviour of culture and what is often referred to as 'our tradition'. The issue is not without its controversial aspects as outsiders and particularly Western-trained medical professionals react to and condemn such explanations as evidence either of intransigence on the part of patients or of their backwardness and crass stupidity. In striking contrast, 'our culture' or 'African tradition' carries increasingly positive connotations for many local people. These speak to the intrinsic value of African beliefs and values, in their own right and also when contrasted with those of the West, particularly with those of Western medical science. In what follows, I deal first with one of the reasons why local cultural explanations of what causes disease in general, and HIV in particular, are so popular. Second, I seek to contextualise the decisions people make about health care in terms of the pressures brought to bear upon them by the advice of important members of their social circle. I conclude by arguing that, in contrast to popular belief, culture is an ever-changing terrain and one that often reflects changed circumstances as much as it imposes rigid and outmoded courses of action.

Explaining the inexplicable and providing a template for action

My first point hinges on the satisfying nature of the explanations that local culture presents in the face of the otherwise apparently inexplicable hand of 'fate' that casts down one person, but spares others who, because they are known to engage in high-risk sexual behaviour, might be expected to be infected. In much of sub-Saharan Africa either ancestral anger or the envy and ill will of jealous neighbours, the latter couched in terms of the use of witchcraft or poison, are often blamed for illness and many other misfortunes (Evans-Pritchard 1937; Ngubane 1977; Niehaus 1997; Ashforth 2002; Leclerc-Madlala 2002c; Stadler 2003; Ashforth 2005). In the case of HIV/AIDS, these personalised explanations focus on poison or witchcraft as the cause of the widely recognised symptoms diagnosed by Western medicine as indicative of AIDS. This explanation vies with Western medical explanations that focus on the spread of 'the virus' through risky sexual behaviour but offer no real explanation of why some people are affected and others apparently not. In addition, until recently (and even now in practice), little concrete by way of either treatment or 'a cure' has been offered by Western medicine.

Research and clinical experience show that the increasing gravity of AIDS symptoms, and the growing and near certainty of a tragic end if AIDS is diagnosed, precipitate fear and despondency in the individual concerned and in her or his family. This demands action, although in the end there may be resignation and tacit acceptance of the inevitable. Before this happens, however, local cultural explanations, in terms of poison laid by a malevolent neighbour or passer-by to kill those who inadvertently step over its hiding place, provide a clear and recognised course of action. The first step is a visit to a traditional healer to discover the exact cause of the illness or, especially in cases where a death has already occurred, its origin and the grievance that precipitated the act of witchcraft. Once these are established, the healer advises on ways of dealing with the crisis. Whatever the nature of the advice, it is followed if at all possible. This very action, or the sometimes long train of events that is set in motion, serves to assure the person involved or their family that something concrete has been embarked upon to deal with the situation. Until these actions are concluded, the family remain anxious and concerned, but at least have the comfort of knowing that they have engaged with the problem and are no longer at the mercy of the supposed witch or sorcerer. They are, to quote a recent author on the subject, at least 'doing something' (Reynolds Whyte 2002).

In many cases, consulting a traditional healer or coming to believe that the symptoms diagnosed in the clinic as AIDS are, in fact, due to poison does not close the path to following other advice offered with respect to treatment. In addition to the clinic or hospital, people invariably consult trusted neighbours and their kin, and all these avenues produce advice on alternative courses of action to regain health. These, too, may be followed, either simultaneously or serially, for it is judged wise to leave no stone unturned in so critical a matter as persistent ill health, possibly untimely death and further malevolent infection. Reynolds Whyte (2002) argues that all these courses of action help to reassure both the dying and the living that a cure is still possible. It is only when there is clearly no hope that the search is abandoned. Much the same is often the case with increasing numbers of people across the world who nowadays move between Western medical science and alternative and 'complementary' medical paradigms. In the African situation, where effective treatment is unavailable for 'the virus' that Western-trained doctors and health workers describe, their explanation of AIDS provides little hope and comfort, nor does it prescribe a definite course of action that might lead to a cure. It is not surprising that the ailing and their families seek alternative advice and spend their money on what health workers castigate as 'bogus cures'. In the absence of readily available Western treatment, any authoritative voice may be listened to and the advice it carries with it added to a growing curative repertoire.

Reynolds Whyte (2002), along with other social scientists, makes another arresting point based on research with families and households living in small and isolated rural communities – people seldom face illness alone. They do so in the company of their relatives and, unless AIDS stigma is very strong, with nearby friends. All of these people may have different opinions and, particularly in the case of older people and local elders, definite and persuasive advice to offer. To ignore this would be lacking in respect and in what Reynolds Whyte terms 'civility', which she defines as 'a recognition of your involvement with other social actors' (Reynolds Whyte 2002: 182). It is important, and never more so than in small resource-poor settings, to have (and keep) friends and influential supporters who may assist one in times of need. The bottom line in all these examples is that the majority of people in South Africa and Africa, generally, live on the borderline of survival and have few sustainable resources, other than their relationships with others, on which to fall back in times of need. This potential support is not easily or knowingly jeopardised and, indeed, is the essence of what is often referred to as social capital (Portes 1998; Schuller et al. 2000; Grix 2001) and of the marked differences between the ability of communities characterised by high degrees of social cohesiveness and reciprocity to survive crises as compared to those in which such binding mechanisms are limited (Putnam 1993). In speaking to people about what often seems an unwillingness not to take the advice of senior family and community figures, resort is often made to 'our culture' in the guise of African tradition, which stresses respect for age and seniority.

I turn now to consider a final issue that is often neglected in discussions of the role of local culture in HIV/AIDS. This is its flexibility and creativity. An excellent example of this comes from the South African lowveld, where Stadler (2003) reports the development of what he calls local 'moral scripts' relevant to the fast encroaching AIDS epidemic. Gender differences, in particular, are reflected in gossip and stereotyping, in that men and women are seen as open to risk of HIV infection for strikingly different reasons. The former are portrayed as powerful because they have more access to paid employment than women. They are, however, also branded as womanisers who prey on women needing cash. This brings its own punishment, however, in terms of HIV infection. Women, in contrast, are portrayed as the prey of men, but they are seen also as using their 'beauty' to ensnare and exploit them. In doing this, they, in turn, 'buy their own coffins'. The message that having many sexual partners is dangerous and should be avoided is clear. Stadler argues that in this way a new morality appropriate to the AIDS situation is developing and is reinforced every time these gender stereotypes are used and repeated. In this manner, new local cultural forms are developing that belie the conventional wisdom that men cannot be expected to change their sexual habits because these are deeply embedded in 'African culture'. Much the same process of subtle cultural change, although in this case one that has been carefully planned and executed, is to be seen in the Treatment Action Campaign's (TAC) public stance that with the advent of ARV treatment AIDS no longer constitutes a death sentence (Friedman & Mottiar 2004). Their current campaign, which is based on public messages transmitted directly from people living successfully with AIDS, is an example of the sensitive and skilful use of the media to change attitudes and so influence behaviour. The TAC is, indeed, in the business of actively changing local culture.

Cultural change is not always positive, however. Scrutinising the case of the new stereotype of women that Stadler reports from the lowveld gives the proponents of gender equality some cause for concern. Although the message of reducing partners has a positive effect in stemming the spread of the epidemic, it is made alongside a negative image of women that brands them as avaricious to the point of cynically and uncaringly offering sex to men for money. This echoes comments made by Leclerc-Madlala (2002a) to the effect that women in KwaZulu-Natal are demonised as the carriers of HIV and, therefore, are seen as increasingly dangerous to men in the time of AIDS. These developing stereotypes immediately sound a warning note. Deeply conservative cultural forms from the past may be reinforced as easily as progressive and adaptive ones are developed and may, in fact, be consciously manipulated to serve particular and, in this case, conservative male interests (Scorgie 2002).

Culture and 'tradition' need to be treated with care by researchers, interventionists and leaders. Nonetheless, the bottom line illustrated by the examples above suggests that culture, although often blamed by outsiders for the conservatism that they assume impedes the acceptance of Western medical science, may, in fact, be an important force and tool in building and securing social capital and providing psychological support and the comfort of alternative action that is vital in the absence of adequate supplies of Western-developed and controlled medications.

In concluding this chapter, I return to the call I made earlier to social scientists working in the HIV/AIDS arena to make their professional knowledge and research findings available in the service of public debate and intervention. In the latter vein, Stadler (2003) recommends that local intervention messages should be built upon existing and currently apposite local images (developing 'moral scripts') of both men and women who do not indulge in risky unprotected sex. He points out, as many others in the field have done, that men must be targeted in tandem with women in HIV/AIDS campaigns. In this manner, his work indicates that the study of local culture is not merely of arcane interest – the information it gleans has the potential to be put to practical ends to fight the spread of the HIV epidemic.

Note

I am indebted to Richard Parker in one of whose lectures I first heard use being made of these terms. Indeed, he and his colleagues are leaders in exploring these processes in a range of different social and economic situations.

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19 Economic and development issues around HIV/AIDS

Alan Whiteside and Sabrina Lee

Introduction

In 1990 the African National Congress (ANC) was unbanned and so began the complex negotiations that brought South Africa to its first democratic election in 1994. At that point, the AIDS epidemic in the country was seven years old, the first cases having been seen among gay white men in 1982. The epidemic was very limited: a number of surveys in KwaZulu-Natal and the then Transvaal had found virtually no HIV; indeed, a survey of 17 000 mine workers identified only 0.01 per cent HIV prevalence, among migrants primarily from Malawi (Abdool Karim 1999).

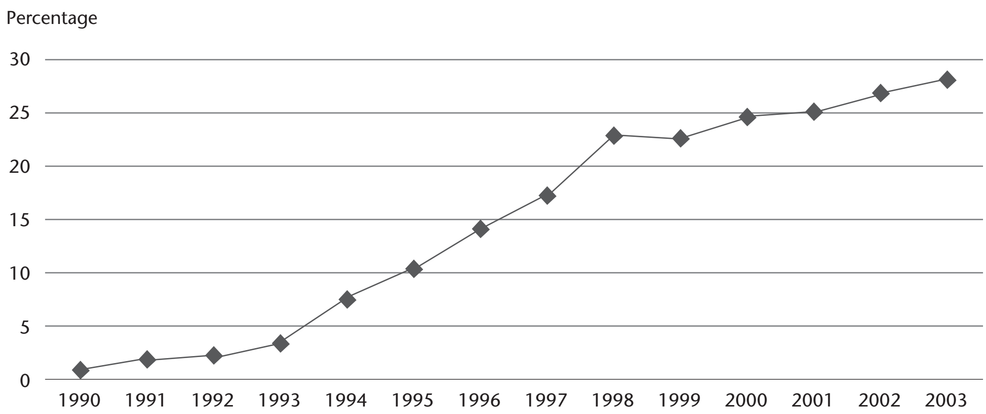
However, the epidemic was looming and the rapid rate at which it has spread is truly alarming. In 1990 the first national survey was carried out to estimate HIV prevalence in the South African population. This followed accepted international procedures and tested women attending antenatal clinics (ANCs). At this early stage of the epidemic, prevalence was 0.8 per cent.

National HIV sero-prevalence surveys are conducted annually, and the national prevalence trend from 1990 to 2003 is shown in Figure 19.1. At the time of the first election in 1994, HIV prevalence stood at 7.6 per cent. Large regional variations were identified. The highest prevalence was in KwaZulu-Natal where prevalence was estimated at 14.4 per cent, compared to 0.2 per cent in the Western Cape. By 1999, and the second election, prevalence had risen to 22.4 per cent. In 2003, the latest year for which we have data, the national prevalence was 27.9 per cent (Department of Health 2003).

It takes an average of eight years for people infected with HIV to develop AIDS; thus, while many people are infected, the full impact has yet to be felt. This chapter will show that the scale of the epidemic is such that the consequences for the economy, society and for development more generally will be bleak. However, the real tragedy is that the devastating impact of the HIV/AIDS epidemic could have been averted by concerted action on the part of the government and other key players. This chapter will touch on these issues by asking:

- W hy has the development community totally failed to take cognisance of the HIV epidemic and do more to prevent its spread, in South Africa and globally?
- W hy has the South African government failed so dismally to make an appropriate response to HIV?
- W hat action can be taken?

Figure 19.1 Antenatal HIV sero-prevalence trend in South Africa, 1990–2003



What we know about the epidemic

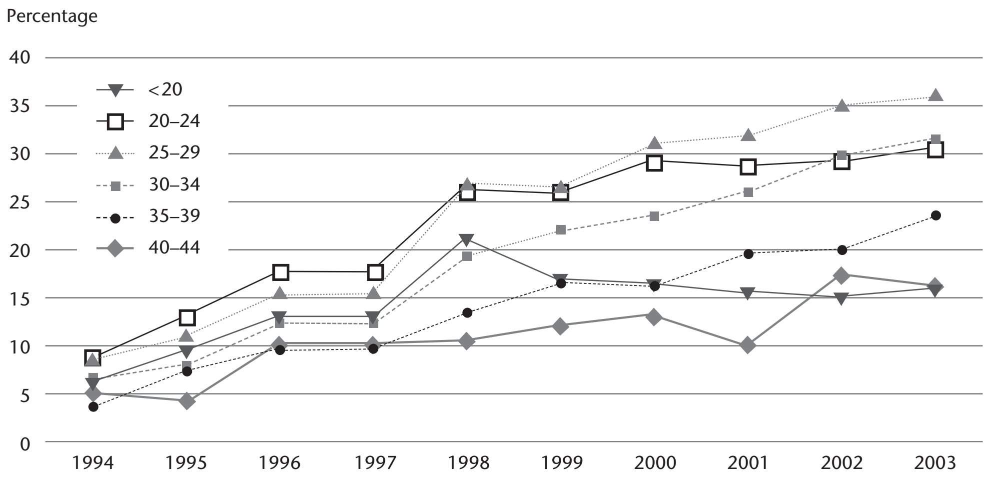
The national prevalence data shown in Figure 19.1 are disaggregated in Table 19.1, where we show HIV prevalence by province, and in Figure 19.2, which gives prevalence by age group since 1994.

Table 19.1 HIV prevalence by province among antenatal clinic attendees, South Africa, 1994–2003

Province	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
KwaZulu-Natal	14.4	18.2	19.9	26.8	32.5	32.5	36.2	33.5	36.5	37.5
Mpumalanga	12.1	18.3	15.8	22.6	30.0	27.3	29.7	29.2	28.6	32.6
Gauteng	6.4	12.0	15.5	17.1	22.5	23.9	29.4	29.8	31.6	30.1
Free State	9.2	11.0	17.5	19.6	22.8	27.9	27.9	30.1	28.8	29.9
North West	6.7	8.3	25.1	18.1	21.3	23.0	22.9	25.2	26.2	29.6
Eastern Cape	4.5	6.0	8.1	12.6	15.9	18.0	20.2	21.7	23.6	27.1
Northern Province	3.0	4.9	7.9	8.2	11.5	11.4	13.2	14.5	15.6	17.5
Northern Cape	1.83	5.3	6.6	8.6	9.9	10.1	11.2	15.9	15.1	16.7
Western Cape	1.2	1.7	3.09	6.3	5.2	7.1	8.7	8.6	12.4	13.1
National	7.6	10.4	14.2	16.0	22.8	22.4	24.5	24.8	26.5	27.9

Of the more troubling features of HIV in South Africa have been the apparent denial of the disease by President Mbeki, the acceptance of unorthodox remedies, and questioning of the data on the epidemic. Here we need to examine the issue of statistics in greater detail.

Figure 19.2 HIV prevalence trends by age group among antenatal clinic attendees, South Africa, 1994–2003



The annual antenatal clinic surveys provide the most consistent and reliable data, but are subject to bias. Clinic attendees are by definition sexually active. Furthermore, the wealthier and poorest members of society may be excluded – the rich because they receive private medical care and the poor because they may not have the means to access the public health system. Population data show that there are more women infected than men. The Department of Health uses the antenatal clinic survey data to estimate the number of infected South Africans by gender as well as how many mother-to-child transmissions will occur. These figures for 2002 and 2003 are shown in Table 19.2.

Table 19.2 Number of estimated HIV-infected women, men and children, South Africa, 2002–03

	2002	**2003**
Women	2 950 000	3 100 000
Men	2 300 000	2 400 000
Children	91 271	96 228
Total	5 300 000	5 600 000

In 2002 a population-based survey was carried out by the Human Sciences Research Council (Shisana & Simbayi 2002). This survey suggested that 11.4 per cent of South Africans over the age of two years were living with HIV. This would give about 4.69 million infected people. However, as Table 19.2 shows, the Department of Health's 2002 antenatal clinic survey estimated that there were 5.3 million infections at the end of 2002.

This resulted in heated debate about the usefulness and reliability of the data. Furthermore, writer Riaan Malan waded into the debate around HIV/AIDS with an article in the British periodical *The Spectator* headlined 'Africa isn't dying of AIDS'. Malan argued that AIDS is a serious issue for Africa, but the size of the problem and its long-term effects on society and the economy had been exaggerated. He also suggested that the 'AIDS industry' is self-sustaining and self-gratifying. Unfortunately, President Mbeki referred to this in a TV interview on 8 February 2004, appropriating Malan's ideas and data and using them to give legitimacy to his own scepticism.

These discussions are debilitating to the fight against HIV/AIDS. When in doubt, blame the messenger. This syndrome has been common across South Africa and is still sustained today. Does it matter whether there are 4.5 or 5.5 million infected South Africans? In either case, we face high morbidity and mortality and increased rates of orphaning.

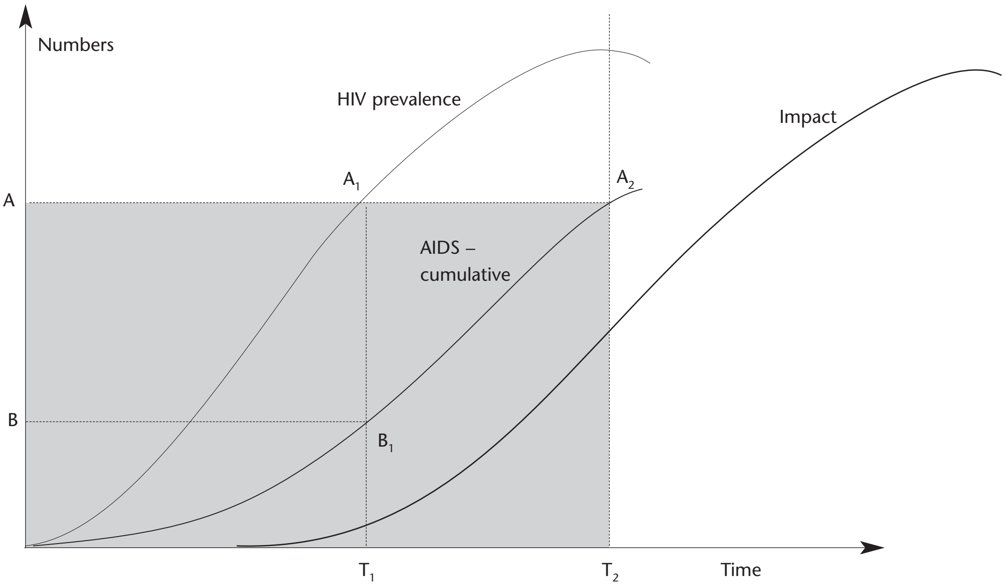
The data from South Africa's neighbours show that there is the potential for the epidemic to worsen. For example, at the end of 2003, adult HIV prevalence (among people aged between 15 and 49) in Botswana and Swaziland was 37.3 per cent and 38.8 per cent respectively (UNAIDS 2004). Clearly one of South Africa's goals is to avoid reaching these prevalence levels.

Figure 19.3 illustrates the three challenges faced by South Africa and the development community. The first curve is an HIV curve. This curve can be drawn based on real data and used to track the progression of the epidemic to date. This presents the first challenge, that of prevention. The second curve displays cumulative AIDS cases. The long incubation period means that AIDS cases lag behind, and are hidden. If we are at time A1 on the HIV curve, we will be seeing the lower level of AIDS cases at point B1 (representing infections that took place five to ten years earlier). The bad news is that in five or six years' time, we will see very many more AIDS cases at point A2. These are people who will need care and who will die unless there are dramatic improvements in the availability, efficacy and cost of treatment. Our second challenge is to provide appropriate care for those infected and affected.

However, there is a third curve – the AIDS impact curve. This represents the orphaning, the elderly burying their children, the loss of workers and the increase in poverty. Here the challenge is impact mitigation, and this is the area where there has been the least response.

Therefore, AIDS and its impact may be characterised as a long wave event. The Actuarial Society of South Africa's projection shows that with no change in the situation and response, total HIV infections will reach over 7 million by 2010, and accumulated AIDS deaths will be over 5 million. The total number of AIDS sick will amount to almost 1.4 million.[1] Some idea of the time frame can be seen in data from orphaning in Uganda where HIV prevalence peaked in about 1989 but the number of orphans only peaked in 2003/04, some 14 years later. If this holds for South Africa, then the peak of orphaning may occur only in 2017/18.

Figure 19.3 Epidemic curves, HIV, AIDS and impact



The consequences of HIV/AIDS

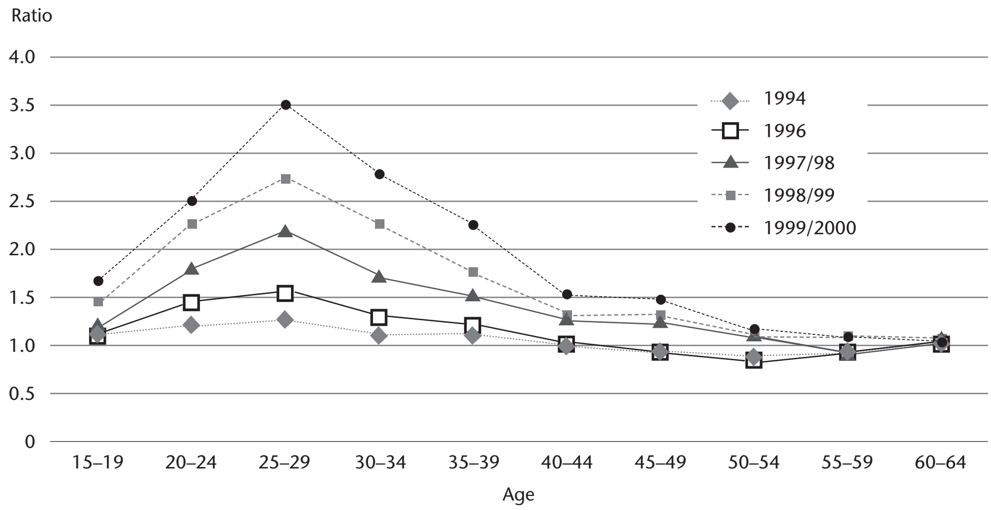
AIDS is a development disaster. It has the potential to slow growth and undermine the gains made since 1994. In order to understand why this may be the case, we need to look at the consequences of the disease.

Demographic impact

The demographic impact of AIDS is the most easily identified and measured consequence of the epidemic. There is an increase in the mortality rate of people mainly in their 20s, 30s and 40s. There is also a rise in infant and child mortality for two reasons: firstly, infants infected by mother-to-child transmission have poor life chances (most will die before their third birthday) and, secondly, children who are orphans have higher mortality than non-orphans.

There is solid evidence of this increased mortality in South Africa. The Medical Research Council released a study on adult mortality in 2001. It shows increased deaths in men and women by age. Increased mortality was more marked for women than for men. Figure 19.4 shows that a woman aged between 25 and 29 was three and a half times more likely to die in 1999/2000 than she would have been in 1985 (Medical Research Council 2001).

Figure 19.4 Relative mortality rates for females 1994–2000 compared to 1985



Source: Medical Research Council (2001: 29)
Note: 1985 ratio = 1

The UN uses life expectancy as one part of the Human Development Index (HDI). This is a composite indicator of development, which also includes the adult literacy rate, education enrolment ratio and GDP per capita. In Table 19.3, we illustrate life expectancy and South Africa's HDI rank along with other countries in the region, compared to Egypt, which has an estimated HIV prevalence of less than 0.1 per cent. It is clear from the table that AIDS is already having a devastating impact on development and, as Figure 19.3 illustrates, it is almost certain to get worse. The implications of this have yet to be properly assessed. Delivery of affordable and effective antiretroviral (ARV) therapy could change this, but it is unlikely to be significant. Currently, the best we can hope for from the drugs is that they buy time.

Table 19.3 Human Development Index and life expectancy data, 1998 and 2002

	1998		**2002**	
	HDI rank	**Life exp.**	**HDI rank**	**Life exp.**
South Africa	103	53.2	119	48.8
Botswana	122	46.2	128	41.4
Swaziland	112	60.7	137	35.7
Egypt	119	66.7	120	68.6

The consequences of this mortality will be increased orphaning and poverty. A study in Zimbabwe found that 40 per cent of sample households had taken in an orphan who had lost both parents to AIDS (Mutangadura 2000). This has placed additional strain on household resources and extended family networks. Given the current trends, in 2010 the highest proportion of orphaned children – more than one in five – will be in the southern African region. Eighty per cent of cases will be as a result of AIDS deaths (UNICEF 2003).

The responsibility for care of orphans and the sick has largely fallen to women, who make up almost 70 per cent of caregivers according to a survey conducted in South Africa. Women also bear the burden of the disease itself (Steinberg, Johnson, Schierhort & Ndegwa 2002). Women have higher infection rates than men: 56 per cent of HIV positive adults in South Africa are women and they are likely to die younger. The low social and economic status of women in sub-Saharan Africa has rendered them vulnerable to the negative impacts of the epidemic. Women face greater impoverishment, girl children are more likely to be withdrawn from school, and the threat of violence and discrimination weighs more heavily on women than on men. AIDS will exacerbate gender inequality and reverse many of the gains that have been made to elevate the status of women in society.

Demography measures events, but when we focus on deaths and their consequences, there is an important point to be made. Each death is preceded by illness, wretched, debilitating and distressing illness, which has also been impoverishing for many families.

Political consequences

Much has been written and postulated about the security and political consequences of this epidemic. It is the first disease to have a special session at the UN Security Council. Indeed, in 2003 the Commission on HIV/AIDS and Governance in Africa was appointed by Kofi Annan and was expected to publish its report at the end of 2005. The idea that the disease might threaten global security overstates its reach, but at the local level the impact on governance will be considerable and it is an area that needs further research.

Recent work by the Institute for Democracy in South Africa (Idasa) has looked at the political impact of the disease. In Zambia there has been a dramatic increase in by-elections since the first reported AIDS cases. Between 1985 and 2003, 102 by-elections took place, 39 as a result of death – almost three times as many as during the previous 20-year period. Idasa also analysed the 2004 election in South Africa. This analysis found that the higher the prevalence the less likely young women were to register as voters. AIDS stigma and discrimination were also found to be significant factors preventing people living with HIV/AIDS and caregivers from participating in elections (Strand & Chirambo 2004).

Economic impact

The economic impact of the disease can be assessed at various levels from the national or macro to the household.

Macroeconomic effects

The key concern when looking at macroeconomic impacts is the rate of growth of national economies. Evidence of slower economic growth is often more compelling in getting people to respond to threats posed by HIV/AIDS than confirmation of impact at household or firm level. Which government can ignore claims that it will face operating on a smaller budget, higher levels of poverty and unemployment and decreased foreign investment?

From as early as 1992, there were predictions that AIDS would slow economic growth. The degree of impact depended on assumptions about who would be infected and the extent to which illness would be funded by savings. The conclusion was that economic growth rates would be between 0.56 per cent and 1.47 per cent lower (Over 1992). In 2000, World Bank economist Rene Bonnel used cross-country regressions to assess the impact of HIV/AIDS. He suggested that the rate of growth of Africa's per capita GDP had been reduced by 0.7 per cent per year in the period from 1990–97 (Bonnel 2000). This growth was lowered by a further 0.3 per cent per year in countries also affected by malaria. Early predictions demonstrated relatively minor impacts on macroeconomic performance, when compared to more recent models.

South Africa is probably the most studied country with regard to the macroeconomic impact of HIV/AIDS. Table 19.4 summarises the studies done in 2000 and 2001. The 'with AIDS' scenario in each case assumed lower levels of production and a smaller labour force, direct and indirect costs to the business sector, higher government expenditure (particularly on health and social welfare) and additional household out-of-pocket spending.

Table 19.4 Macroeconomic studies in South Africa, 2000/01

Study	Results
ING Barings 2000 (Quattek 2000)	Real GDP will be an average 3.1% lower in 2006–2010 and 4.7% lower in 2011–2015. Declines in average annual GDP growth: 0.4% (2006–2010); 0.3% (2011–2015).
Arndt & Lewis (2001)	Real GDP will be 20% lower in 2010. GDP growth rates will decline from the late 1990s to 2008 (maximum difference in growth rate: 2.6% in 2008). GDP growth will rebound slightly in 2009/10.
Bureau for Economic Research (2000)	Real GDP will be 1.5% lower by 2010 and 5.7% lower by 2015. Declines in average annual GDP growth: 0.1% (2002–2005); 0.3% (2006–2010); 0.9% (2011–2015).

However, a new generation of macroeconomic impact studies suggest that previous assumptions do not appreciate the complexity and full significance of the epidemic, particularly regarding the importance of human capital. The earlier comparisons of 'with AIDS' and 'without AIDS' treated the disease as an 'exogenous' influence that was added to models derived on the presumption that the workforce is HIV-free. Yet, in reality, HIV/AIDS is an 'endogenous' influence, requiring feedback loops to appreciate accumulative impacts.

A recent World Bank paper suggests that the long-run economic costs of AIDS in South Africa are almost certain to be much higher than predicted to date and could be devastating to the national economy (Bell, Devarajan & Gersbach 2003). This is because human capital is transmitted across generations, making an 'overlapping generations' model more appropriate in understanding how AIDS will impact upon people. According to the authors, AIDS will retard economic growth in the following ways:

- b y destroying human capital, particularly of young adults;
- b y weakening and breaking down mechanisms that generate human capital and investment in people, through loss of income and the death of parents; and
- b y giving rise to a new generation with little education and knowledge, and therefore less able to raise their own children and invest in their education.[2]

'Endogenous growth models' are recognised as providing a more accurate assessment of the effects of epidemiological crises such as HIV/AIDS on developing countries (Drouhin, Touze & Ventelou 2003). Importantly, such models consider persisting effects on development. They identify productivity variables that act as catalysts to development, and further consider the impact of HIV/AIDS on these variables. Unfortunately, these are models and they have yet to be applied by politicians or policy-makers.

If macroeconomic growth is slowed or the economy contracts, there will be significant implications for poverty, government revenue and spending on service delivery. Sectors such as health and social services will be hardest hit because not only do they face the impact of the disease on their staff and other resources, but they are also required to provide additional care and support.

Sector/firm-level impacts

While sector- or firm-level studies do not attract the same attention as those with a macroeconomic focus, they are important in the development context. The body of literature on this level of impact is growing. However, there is still a dearth of information on small companies and the informal sector, because of the challenges involved in designing and carrying out relevant research.

At the firm/sector-level, AIDS is equivalent to an additional payroll cost; it increases the cost of doing business. The best firm studies are those by the Centre for International Health at Boston University's School of Public Health. Initially, they looked at six formal-sector enterprises in South Africa and Botswana (Rosen, Vincent, MacCleod & Fox 2004). The results of these studies showed that under a conservative set of assumptions, HIV/AIDS among employees added between 0.4 and 5.9 per cent to the annual salary and wage bill of the firms, the variation resulting largely from differences in end-of-service benefits.

While decreases in productivity of those who are HIV-positive are understood to form part of the cost to companies, this decrease typically evades measurement. One context where measurement of changes in productivity is possible is where workers are paid according to their daily output. The first study looking at the impact of AIDS on productivity was conducted on a tea plantation in Kenya, where workers were paid per kilogram of tea picked (Fox, Rosen, MacCleod & Wasunna 2004). The tea plantation research reviewed records of outputs and absenteeism over a six-year period from January 1997 to December 2002. HIV-positive individuals picked on average 3.6 kg/day less tea two to three years prior to death, 5.1 kg/day less one year prior to death and 9.3 kg/day less approaching death. In the three years leading up to death, HIV-positive individuals used between 3.4 and 11.0 more days sick leave, depending on the stage of illness.

The impacts resulting from HIV/AIDS, including decreasing productivity, are often exacerbated in the public sector when compared to the private sector. Job security is often seen as a substitute for salary, and the sector has a limited capacity to respond to changes in its environment. The security of employment is often characterised by better leave entitlements, superior pension benefits and a lack of systems to ensure high productivity. This means that public-sector employees would, in most cases, be able to take more leave and be less productive when illness strikes, without the risk of losing their jobs. The costs of such benefits are then borne by the government. Government sectors, notably health and social welfare, will have to contend with increased demand and a reduced capacity to deliver in a context of HIV/AIDS.

Whether costed or not, it is clear that economic impacts on both the private and public sectors will be significant. The burden of HIV/AIDS will be shifted to firms or sectors that rely heavily on less-dispensable skilled labour and offer more in the way of medical and end-of-service benefits. Furthermore, firms or sectors that fail to consider the impact of HIV/AIDS and incorporate this in their planning will encounter difficulties in financing what could be considered an additional 'tax'.

Family/household-level impacts

Some of the most devastating and immediate impacts of HIV/AIDS can be seen at the household level. While macroeconomic impacts will unfold over generations, household-level impacts are already evident in countries affected by the epidemic. Research often excludes the most seriously affected households, as they are likely to disintegrate before surveys commence. Another limitation with household-level research is the focus on rural rather than urban or peri-urban households. In addition, it rarely captures the dynamics of household or intra-household allocations and relations that underlie household decision-making.

The overwhelming message concerns the close relationship between households affected by HIV/AIDS and subsequent impoverishment. Not only are HIV-affected households generally poorer, but there are also changes in income, consumption and expenditure patterns. Most notably, many impact studies at this level demonstrate that in affected households:

- m edical and funeral expenses consume a much greater share of household resources;
- less money is spent on food; and
- p roportionally fewer resources are given to education.

How do households cope with the economic impacts of HIV/AIDS? Work on this theme from various countries was summarised and complemented with original research from South Africa by Booysen (2002, 2003). Three coping strategies were regularly employed: borrowing, the sale of assets and the utilisation of savings. While it was found that social assistance grants play an important role in mitigating poverty fuelled by HIV/AIDS, an additional study noted that fewer than 16 per cent of AIDS-affected households in South Africa received a government grant or home-based assistance from welfare services (Steinberg et al. 2002). However, AIDS-affected households in other African countries are rarely able to access any such social assistance.

There are still large gaps in our knowledge of household-level impacts and there is little direction given for mitigating these. While macroeconomic studies often take the lime-light, there is a need for greater focus on examining the effects of HIV/AIDS at the household and firm level.

The failure of development studies, and ways ahead

The Copenhagen Consensus 2004 project demonstrates that we must consider AIDS as a serious development issue. For this project, a panel of eight economic experts set priorities for confronting ten great global challenges by answering the question: 'What would be the best ways of advancing global welfare, and particularly the welfare of developing countries, supposing that an additional $50 billion of resources were at government's disposal?' The highest priority was assigned to measures to prevent the spread of HIV/AIDS, with the conclusion that costs, although substantial (an estimated $27 billion), are small in relation to what stands to be gained by averting nearly 30 million new infections by 2010 (Copenhagen Consensus 2004).

The merits of a holistic approach towards tackling the HIV/AIDS epidemic have been acknowledged and are likely to be most successful in reducing economic impacts in the long term. Such an approach includes prevention, treatment and care, as well as impact-mitigation strategies. Jeffrey O'Malley, Executive Director of the International HIV/AIDS Alliance from 1993–2003, reflected on ten years of the global response to AIDS by saying:

> The struggle against the epidemic has been hampered by the curse of believing in and promoting single magic bullets … We have managed to learn that prevention, care, treatment and impact mitigation are all possible. But what works is a combination of strategies, alongside efforts to embed HIV/AIDS responses in the

> broader and longer-term work of strengthening public health, promoting development, and respecting and protecting human rights. (O'Malley 2003)

So why has there been this blind spot? It began with the first statistics. AIDS case data from 1982 (when the first two cases were seen) to 1991 showed the majority of those infected were gay white men. It was concluded that this was a gay disease and the data seemed to support this. When the new government came to power in 1994, it was confronted by many challenges, and AIDS did not seem to be a priority. An issue was that many of those advocating for its prioritisation were either from the old regime or were white liberals, and both groups lacked credibility.

Responses occur because of information, observation or instruction (Barnett & Whiteside 2002). Information provided in South Africa was not seen as credible and/or the messengers were not believable. Observation was difficult because HIV spreads invisibly and AIDS follows years later. It is also hard to ascertain causality, and the consequences and impact of epidemics are not evident in the short term. It is not like the annual Christmas and Easter death tolls on the roads, immediate and tangible. Instruction could not work – leaders expect to give instructions, not take them.

It is also clear that, for South Africa, the international community has done us no favours by appropriating the epidemic and seeing it as one it wishes to solve. It is easy for leaders to say, 'if you think it's a problem, you solve it'. This has been made more complex by the nature of recent responses where it has been suggested that financial, technical and medical interventions will deal with the issue.

However, development practitioners have fewer excuses. Their short-sightedness has been negligent. We must recognise that AIDS has developmental and economic impacts. It will reduce our working population, decrease our GDP and have a societal impact, which creates a major negative incentive for investors. It will impoverish large numbers of people, create orphans and worsen gender inequality. What needs to be done is not going to be easy. It will require conceptualising an uncertain future and thinking 'outside of the box'. However, there are certainties. We know how many people are infected, and we can project mortality and orphaning and estimate morbidity. There is a growing body of evidence on the devastating impact of this disease on household welfare, poverty and other development indicators.

We are seeing an increasing recognition of these factors in South Africa, and a greater commitment to the fight against AIDS is evident. This year the government allocated R4.3 billion from the National Treasury to fight HIV/AIDS over the next three years. These funds are being used to implement the 2003 Comprehensive National Plan on HIV and AIDS Care, Management and Treatment, which aims, among other things, to provide antiretroviral treatment to 53 000 of the eligible 400 000 South African's living with HIV as at 2005. The current figures fall far short of the target (only 18 500 people are receiving treatment to date), and there are gross regional disparities in treatment access.[3] Nevertheless, South Africa has the advantage of having a plethora of bilateral agencies, foundations and dedicated civil society organisations bringing additional resources to the national response. The National AIDS Council also provides a multi-sectoral forum that engages civil society and the private sector in developing and implementing effective policies and programme interventions.

AIDS in Africa has been identified by Kofi Annan as 'the most formidable development challenge of our time'. In many ways, South Africa is beginning, albeit slowly, to rise to that challenge. There are encouraging signs that determined and collaborative action is being taken, and we hope that when South Africa reaches the twentieth anniversary of majority rule we will have come a long way towards beating the AIDS epidemic.

Notes

1 Results extracted from the ASSA 2000 AIDS model, downloaded from www.assa.org.za on 23 February 2005.

2 The developers of this economic model applied it to South Africa, because the country has an advanced epidemic and comparatively good data.

3 AIDS Law Project (ALP). Treatment Action Campaign <www.tac.org.za>, July 2005.

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Section 8
Social movements and democratic transition

20 Social movements in South Africa: promoting crisis or creating stability?

Richard Ballard, Adam Habib and Imraan Valodia

Introduction

The first non-racial democratic elections on 27 April 1994 opened a new chapter in South African political history. One feature of this moment was that many of the leaders of South Africa's anti-apartheid social movements entered the corridors of political power. As has happened so often in newly liberated countries, the euphoria of the political transition led many to expect that the need for adversarial social struggle with the state was over and for a while this expectation tended to inform much civic activity, stifling social struggles. This pattern was by no means uniform. Some social struggles did take place. Labour struggles, for example, exploded in the immediate aftermath of the first non-racial general elections. Spontaneous social eruptions also occurred around the issues of crime and the demarcation of new municipal boundaries. However, in most cases these outbursts quickly dissipated and state–civic engagements came to be largely defined by collaboration.

This collaborative relationship between the state and those in the unions and civics[1] was partly facilitated by the new government's attempts to create an enabling political and fiscal environment. Corporatist institutions like the National Economic Development and Labour Council (Nedlac) were established and non-governmental organisations (NGOs) and community-based organisations (CBOs) were provided representation in this forum through the establishment of a development chamber. Legislation was promulgated that required the official registration of NGOs and CBOs. Public funding agencies, like the National Development Agency (NDA), were established to direct financial resources to the sector. Most of all, the government enabled the subcontracting of development services to a number of civic actors, thereby entrenching their service delivery function and the collegiate logic of state–civic relations during the immediate post-apartheid phase.

However, this honeymoon did not last for very long and social struggles in South Africa emerged surprisingly quickly, coinciding with South Africa's second democratic election and the ascension to the presidency of Thabo Mbeki. Three related but distinct developments prompted these struggles. First were those struggles directed against one or other policy of government. The exemplary case here is the Congress of South African Trade Union's (Cosatu) opposition to the Growth Employment and Redistribution (GEAR) strategy. Second were those struggles focused on the government's partial failure in relation to service delivery. The most noted examples here are the Landless People's Movement (LPM) and the Treatment Action Campaign (TAC) that are addressing, respectively, the slow pace of land redistribution and the government's failure to provide an adequate response to the HIV/AIDS crisis. Lastly, some struggles emerged in response to the government's repressive activities. The Soweto Electricity Crisis Committee, the Concerned Citizens Forum and the Anti-Eviction Campaign were all attempts to organise poor and marginalised communities to resist attempts by local, provincial and national government to cut off electricity and water supplies, and to evict residents. The sheer scale and diversity of these social struggles have raised concern in official circles and prompted a number of scholars to turn their attention to analysing this emerging phenomenon (see, for example, Marais 1998; Bond 2000).

Our argument in this chapter is that these new social struggles, some of which are emerging out of so-called new social movements (see Melucci 1985; Tilley 1985; Tarrow 1994; McAdam, Tarrow & Tilly 2001), are essential for democratic consolidation in South Africa.[2] This argument goes against the grain of dominant discourse and the political logic governing the transition in the country. According to this, political stability is of overriding importance, leading to a favouring of strategies and structures that contain conflict and contestation and promote political order. It is this logic, for example, that informs the continuation of the tripartite alliance between the African National Congress (ANC), Cosatu and the South African Communist Party, the establishment of corporatist structures like Nedlac and the entrenchment of the collegiate form of state–civic relations.

However, this logic also reinforces existing power relations that are decidedly against the interests of the poor and marginalised in our society. Economic transformations characterised by the rise of financial capital, the mobility of international capital, the integration of production systems across the globe and the dominance of multinational corporations have fundamentally transformed the relations of power between different constituents within the societies of developing nations. The result of neo-liberal economic policies and global economic transformation has been the increasing impoverishment of the majority of the citizenry of developing nations, and the rise of what some have termed delegative or illiberal democracies (O' Donnell 1994). South Africa is an important exemplar of this pattern of events. The ANC, as the dominant party in the liberation movement, came to office with an overwhelming electoral mandate but its policy concessions over the last decade have been largely to foreign investors and domestic capital (both black and white). This is because it has been able to take the citizenry's vote for granted. As a result of some of the developments discussed above, and peculiar contextual factors, such as the racialised or ethnic character of South Africa's principal opposition parties – the Democratic Alliance, Inkatha Freedom Party and the New National Party – the ANC has not been seriously threatened at the polls. This lack of substantive uncertainty has eroded the citizenry's leverage *vis-à-vis* state elites. Policy concessions in favour of capital are most graphically reflected in the abandonment of the Reconstruction and Development Programme (RDP) and the adoption of GEAR.

The net effect has been a transition that has de-racialised the apex of the class structure and has economically favoured the upper echelons and strata of South African society (see Whiteford & Van Seventer 1999).

The antidote to this state of affairs, we believe, is the emergence of substantive uncertainty in the political system. Political uncertainty is, of course, the essence of democracy. It takes one of two distinct forms – institutional and substantive. Institutional uncertainty – uncertainty about the *rules* of the game – implies the vulnerability of the democratic system to anti-democratic forces. Substantive uncertainty – uncertainty of the *outcomes* of the game – is about the perceptions of ruling political elites in a democratic system on whether they will be returned to office. The former, institutional uncertainty, is bad for democracy as it raises the prospect of a return to authoritarianism. The latter, substantive uncertainty, is good for democracy for it keeps politicians on their toes and makes them responsive to their citizenry.

There has been much investigation into and reflection on institutional uncertainty (see O'Donnell & Schmitter 1986; Huntington 1991; O'Donnell 1993) but there is remarkably little work on substantive uncertainty. This should not be surprising given that researchers and activists concerned with democratisation have been preoccupied with the business of transcending authoritarian regimes and institutionalising democratic ones. Nevertheless, the lack of attention to substantive uncertainty has significant political costs. Indeed, the weakness of many contemporary democracies lies precisely in this arena. Despite the presence of institutional mechanisms that are intended to promote substantive uncertainty – legislative elections, separation of powers, civil liberties, opposition political parties, an independent press – this goal still eludes many of what Huntington (1991) has called the 'third wave' democracies. One reason for this is the shift in power from the legislature to the executive of governments across the globe in the last two decades. Another emanates from the inclination of democratisers and democratisation scholars to not rock the boat in societies undergoing democratic transitions. Fearful of the very real danger of a reversion to authoritarianism, these actors have focused on procedural aspects of democratisation and have made significant political and institutional concessions to the state and economic elites of the authoritarian order. Lastly, it can be explained by the honeymoon phenomenon, where citizens are reluctant to vote against liberation parties who were responsible for co-ordinating the popular rebellions that brought down authoritarian regimes.

Nevertheless, we believe that the emergence of substantive political uncertainty is necessary if a more human-centred developmental project is to be realised in South Africa and, along with it, democratic consolidation. Our support for and reflections on the value of social movements must be understood in this analytical context. With this in mind, the chapter begins by providing an overview of developments in South African civil society in the post-apartheid phase. Thereafter, we undertake a review of contemporary social struggles in the country, to explain why these movements have emerged, who their constituencies are and what influences their choice of strategies and tactics.

We conclude by considering the implications of their emergence for the political and socio-economic evolution of the society and our analysis of it.

Civil society in post-apartheid South Africa – an overview

Civil society can be defined as 'the organized expression of various interests and values operating in the triangular space between the family, state, and the market' (Habib & Kotze 2002: 3; see also Keane 1988). This definition conceptualises civil society as an entity distinct from both the market and the state. While traditional Hegelian definitions of the term include the market, Jean Cohen and Andrew Arrato's (1992) comprehensive and defining work on the subject makes a coherent case for why the market should be excluded from the definition of civil society. For Cohen and Arrato, the actors of what they call 'political' and 'economic' society control and manage state power and economic production and this imparts to them a different strategic purpose and function from civil society actors. In their words, political and economic actors cannot 'subordinate [their] strategic and instrumental criteria to the patterns of normative integration and open-ended communication characteristic of civil society' (Cohen & Arrato 1992: ix). This then makes it essential for civil society to be analytically distinguished from 'both a political society of parties, political organizations, and political publics (in particular, parliaments) and an economic society composed of organizations of production and distribution, usually firms, cooperatives, [and] partnerships' (Cohen & Arrato 1992: ix).

Regime change, democratic or otherwise, can have significant impacts on civil society. It is useful here to briefly consider changes introduced by the democratic government in order to create an enabling environment for civil society in South Africa. Three initiatives were undertaken in this regard. First, the security environment was reorganised in significant ways. Repressive legislation was repealed and a political climate permitting public scrutiny and protest activity was established. This was in no way unqualified. Indeed, in the last eight years there have been occasions when security officials and even some politicians have reacted to legitimate scrutiny and protest in ways reminiscent of their predecessors. This notwithstanding, any overall assessment would have to conclude that the security environment is far more enabling now than it has ever been in the country.

Second, the post-apartheid regime moved quickly to pass legislation and adopt practices to reorganise the political environment. Thus, a Non-Profit Act was passed in 1997 that officially recognised civil society, created a system of voluntary registration for its constituents and provided benefits and allowances in exchange for NGOs and CBOs undertaking proper accounting and providing audited statements to the government. Shortly thereafter, a Directorate for Non-Profit Organisations was established in the Department of Social Welfare to co-ordinate the above processes. In addition, Nedlac was established with four chambers, the last of which was to cater for representation from civil society. Most important in creating a new political environment, however, was the state's willingness to partner with NGOs in the policy development and service-delivery arenas. This opened up a whole new avenue of operations for NGOs and fundamentally transformed their relations with the state.

Third, an enabling fiscal environment was created to facilitate the financial sustainability of this sector. This was in part forced onto the state very early on in the transition, as NGOs confronted a financial crunch when foreign donors redirected their funding away from civil society organisations (CSOs) to the state. Again, legislation was passed and institutions were established to facilitate a flow of resources to the sector. The 1978 Fundraising Act, which limited NGOs' capacity to raise funds, was repealed. Institutions like the NDA and the Lottery Commission were established in the late 1990s with a mandate to fund legitimate non-profit activity. Further, a reform of the tax regulations was promulgated in 2000/01 to grant registered CSOs tax-exemption status, and to encourage a philanthropic culture in the country.

The net effect of these legislative changes and the restructuring of the sector has been the establishment of a fiscal, legal and political environment that has facilitated the development of a collaborative relationship between the state and formal NGOs. NGOs are the first of three blocs that we wish to identify in post-apartheid civil society. NGOs have increasingly been contracted by the state, often encouraged by international donor agencies, to assist it in policy development, implementation and service delivery. The positive result of this is that it has facilitated the financial sustainability of a number of these organisations, but it has come at a cost. Commercialisation and professionalisation have blurred the non-profit/profit divide and have led to questions around the lines of accountability of these organisations. As Habib and Taylor (1999: 79) have argued:

> The existing literature on the non-profit sector is replete with suggestions that NGOs are institutions that service the interests of the poor and marginalized. But can one really argue this when NGOs have become so commercially oriented and dependent on the resources of donors and the government? … Can one really assert that [they are] community driven or answerable to marginalized sectors of South African society?

The second and third constituent blocs of contemporary civil society are different in that they are membership organisations and, therefore, are more accountable than NGOs, at least to their constituents. We characterise them as informal survivalist groups and social movements, respectively. They need to be understood as products associated with economic and political globalisation and its particular manifestation in South Africa. The increasing leverage of multinational corporations and the domestic business community has translated in South Africa into the ANC government's adoption of neo-liberal economic policies (Habib & Padayachee 2000; Padayachee & Valodia 2001). The social effects of this neo-liberalism – read as the liberalisation of the financial and trade markets, the deregulation of the economy and the privatisation of state assets – have been largely negative. Even in its own terms, the government's macroeconomic policies, in the form of GEAR, have not done very well. Foreign investment, the primary rationale of GEAR, has not flowed into the country. Moreover, the prospects for increased flows are slim given the problems of crime, HIV/AIDS and the uncertainty associated with South Africa's neighbour, Zimbabwe. The problem is aggravated by the relaxation of exchange controls, which have enabled South African companies and individuals to export capital, resulting in substantial outflows from the country. Lastly, the state's privatisation programme has not registered much success in efficiency terms, although it has had the effect of ideologically polarising the country and the ruling party and its alliance partners, the Congress of South African Trade Unions (Cosatu) and the South African Communist Party (SACP).

The net achievement of the GEAR programme has been the realisation of the state's deficit targets, but at the cost of unemployment, poverty and inequality. Massive job losses have occurred in almost all sectors of the economy. Tighter fiscal constraints have compromised the state's poverty alleviation and development programmes. State officials often claim credit for having met the targets of the RDP, especially in the areas of water, sanitation, telephone and electricity connections. However, the most comprehensive independent study in this regard estimates that there have been approximately ten million cut-offs in water and electricity services because people have not paid their bills, and a further two million people have been victims of evictions for non-payment of rates and rent (McDonald & Pape 2002). Moreover, other studies have shown that poverty and inequality have increased in real and measurable ways. For example, Carter and May (2001), in a study of approximately 1 200 black households in KwaZulu-Natal, demonstrated that poverty rates increased from 27 per cent to 43 per cent between 1993 and 1998. Economic liberalisation has benefited the upper classes of all racial groups and, in particular, the black political, economic and professional elites who are the primary beneficiaries of affirmative action policies and black economic empowerment deals (Adam, Slabbert & Moodley 1997), but GEAR has had a devastating effect on the lives of millions of poor and low-income families. As Habib and Padayachee (2000: 24) have argued:

> The ANC's implementation of neo-liberal economic policies has meant disaster for the vast majority of South Africa's poor. Increasing unemployment and economic inequalities associated with neo-liberal policies have also pushed even more of South Africa's population into the poverty trap.

CSOs have responded to this challenge. The second bloc we identify within civil society, after NGOs, are informal, survivalist CBOs, networks and associations. Through collective action, poor and marginalised communities are better able to survive the daily ravages of neo-liberalism. According to the recently published study of the Johns Hopkins survey on the shape and size of civil society in South Africa, such associations comprise 53 per cent of the 98 920 non-profit organisations reviewed and, as such, constitute the largest category of organisational formations within the sector (Russell & Swilling 2002). Care must be taken not to see these associations as spearheading the energies and vibrancy of South African civil society. Rather, they should be recognised for what they are, the survivalist responses of poor and marginalised people who have had no alternative in the face of unemployment and a retreating state that refuses to meet its socio-economic obligations to its citizenry. Anecdotal evidence suggests that these 'informal, community-based networks are on the rise, particularly in the struggle to deal with the ever-increasing repercussions of the government's failure to address the HIV/AIDS and unemployment crises' (Habib 2002: viii).

The third bloc that we identify as having emerged within civil society is a category of organisations that have been described as social movements (Desai 2002). These organisations are diverse and some might better be described as proto-social movements. Some are national issue-based associations, like TAC, which focuses on challenging the state's HIV/AIDS policy and enabling the provision of antiretroviral drugs to AIDS sufferers. Others are located at the local level and are more akin to the older urban social movements engaged in action around issues of collective consumption identified by Castells (1983). These include, for example, the Soweto Electricity Crisis Committee and the Concerned Citizens Forum, which respectively organise against electricity cut-offs in Soweto and rates evictions and water terminations in Chatsworth and surrounding townships in Durban. When compared to the informal survivalist groups, both types of organisation are more formally constituted community-based structures with a distinct leadership and membership, often supported by a middle-class activist base. Moreover, their mode of operation is fundamentally different, characterised by greater political intent. For the most part, they have been established with the explicit political aim of organising and mobilising the poor and marginalised to contest and/or engage the state and other social actors around the implementation of neo-liberal social policies. As a result, they have implicitly launched a fundamental challenge to the hegemonic political and socio-economic discourse that defines the prevailing status quo.

Hence, social movements as we have defined them here have an explicit relationship with the state, which, depending on the organisation and the issue area, hovers somewhere between adversarialism and engagement, sometimes involving both (Bond 2001; Desai 2002). Even when engaging the state, however, the engagement is of a qualitatively different kind to that of formal NGOs. For NGOs, the relationship with the state is largely defined by their service-delivery role, whereas for social movements it is more advocacy-based. Engaging the state means attempting to persuade it through lobbying, court action, demonstration and even outright resistance. Survivalist organisations, by contrast, have no relationship with the state, receiving neither resources nor recognition from government agencies. They are preoccupied with the task of simply surviving. Thus, it needs to be understood that the reconstitution of civil society in South Africa in response to globalisation and neo-liberalism has led to a proliferation of organisational forms and the evolution of a plurality of relationships between civil society and the post-apartheid state.

Mapping the terrain of activism

Having situated South African social movements within the broader landscape of civil society, the remainder of this chapter considers the functioning and role of social movements across the wide diversity of their concerns: land equity, gender, sexuality, racism, environment, education, formal labour, informal labour, access to infrastructure, housing, eviction, HIV/AIDS treatment, crime and safety, and geo-politics. Many movements draw from class-based ideologies, with notable self-ascribed descriptions being anti-neo-liberal, anti-capital, anti-GEAR, anti-globalisation, anti-market, pro-poor, pro-human rights, socialist and Trotskyist. The material improvement of poor people's lives is at the core of many of these movements but they are by no means limited to demands for delivery or indeed the concerns of the poor. Some also speak to legal rights, and social and environmental justice. Others speak against stigmatisation of and discrimination against certain categories of people.

These movements also vary in terms of the constituencies they represent. As a result of overlapping concerns, there may be, for example, some shared membership or at least similar kinds of constituencies across the Anti-Eviction Campaign, the Anti-Privatisation Forum, the Concerned Citizens Forum, the Homeless People's Federation and the Soweto Electricity Crisis Committee. Similarly, these memberships are unlikely to overlap with those of the Gay and Lesbian Equality Project and Earthlife Africa, as the concerns of the latter speak to a different, potentially more middle-class constituency, which in turn may have issues in common. Further, some social movements, such as the Palestine Solidarity Committee and People Against Gangsterism and Drugs, draw largely from particular religious constituencies.

In addition to issues and constituencies, social movements vary according to geographic scale. At one end of the continuum, the Concerned Citizens Forum is based primarily in the Durban township of Chatsworth and focuses its work at the city level. On the national scale, the TAC is strongly represented throughout the country, although it is undoubtedly more active in urban areas. At the other end of the continuum, Jubilee South Africa is linked to a global movement concerned with international trade and debt. Local initiatives often overcome the constraints of their geographic focus by affiliating with movements elsewhere in the country or the world. This is most clearly demonstrated by the Self-Employed Women's Union, which, with 2 000 members based in Durban, models itself on the Self-Employed Women's Association in India, which has 500 000 members, and with which it has an association. These and many similar institutions are linked through the global organisation Streetnet, launched in Durban in 2002, and which constitutes an international network of organised street traders. Along with variation in scale, movements also vary in size. According to Forrest (2003), the LPM in South Africa aimed in 2004 to have 100 000 members, while the National Association of People Living with HIV/AIDS claimed a membership of 200 000 to 300 000. Other, perhaps more proto-social, movements have memberships of just a few hundred, or membership numbers that are difficult to determine as a result of their loose organisational form.

Organisational shape is another dimension of variation. In addition to the formations described, some membership organisations, such as the LPM, describe themselves as independent NGOs while others, such as the Coalition of South Africans for the Basic Income Grant, are loosely federated associations and networks of existing organisations.

Lastly, some groups choose not to formalise their structure at all and prefer to remain unregistered and informally organised. As has been argued by Beall (2001a, 2001b), this can be a deliberate strategy to avoid elite or political capture.

Probably the most important factor giving rise to the emergence of contemporary social movements in South Africa is the high and growing level of poverty and inequality that characterises our society. Although directly attributable to the apartheid policies of the past, the policies pursued by the ANC government have exacerbated an already critical situation. While there have no doubt been winners from the government's pursuit of South Africa's integration into the global economy, economic reform processes have had deleterious effects on sections of the working class and the poor. These effects are most starkly felt in the labour market, where unemployment has soared, with close to 40 per cent of the workforce now without any prospect of employment for the foreseeable future. Labour-intensive industries, such as clothing, textiles and footwear, have shrunk dramatically as the domestic market has lost out to imports and as local industries struggle to find markets abroad. The mining industry, for many decades the bedrock of the South African economy, has undergone a pronounced restructuring process shifting toward more capital-intensive mining and thereby shedding over 200 000 jobs (StatsSA 2002). Closer integration into the global economy has resulted in a shift away from manufacturing towards a services-based economy, and a consequent growth in part-time and subcontracted labour processes. Where employment has grown, this has largely been in low-paid and insecure jobs in the informal economy, which is now estimated to constitute some 25 per cent to 30 per cent of all employment in South Africa (Devey, Skinner & Valodia 2002). The effects of this restructuring process are reflected in national income data, which show higher levels of both poverty and inequality compared to those on the eve of the democratic transition in 1994.

These trends are catastrophic when combined with a cost-recovery model for the provision of social services. The national government has devolved responsibility for the delivery of many services to local government without offering significant increases in their budgets. The only way local governments can provide these services, therefore, is to ensure that they 'pay for themselves'. Yet, with the dramatic increases in unemployment, residents find themselves simply unable to pay for water, electricity, rents, rates and mortgages. Together, these forces amount to a 'pincer movement' on the poor, with the state insisting that people pay for their services, housing and land while simultaneously eroding livelihoods. Desai (2002) has argued that there is no longer a 'culture of non-payment' as there was in the 1980s intended to undermine the government, but rather an 'economics of non-payment' whereby individuals simply cannot afford services as a result of their marginalisation from employment in the formal sector. The government responds as if this were a problem of discipline, cutting off services and evicting delinquent residents.

The membership of a number of social movements is affected by this pincer movement of falling employment and increasing cost-recovery for services, and a first set of social movements has responded directly to the issue of employment and the labour market.

Cosatu, for example, represents to some extent a set of winners within the context of the transition. Its members enjoy access to employment within the formal economy and under increasingly progressive labour conditions. However, formal unions are all too aware that theirs is a pyrrhic victory. Within the context of massive job losses, their members are faced with supporting growing numbers of dependants. The recommendation of Cosatu and a variety of other organisations has been a universal Basic Income Grant, advocated and mobilised through a second social movement concerned with unemployment and a poorly performing labour market, the Coalition of South Africans for the Basic Income Grant. The third labour market-related movement is the Self-Employed Women's Union, which is lobbying for the recognition of the informal sector, as not only a site for pursuing legitimate livelihoods but also an important part of the economy.

These and other movements are responding, then, to one side of the squeeze on the poor – their ability to make a living. Responses to the other side – their right to shelter, services and other goods of collective consumption – emerge from the Anti-Eviction Campaign, the Anti-Privatisation Forum, the Concerned Citizens Forum, the Homeless People's Federation, the Soweto Electricity Crisis Committee and others who oppose cost-recovery for services. Through illegal reconnections, court injunctions and protest, they attempt to expose the contradiction whereby councils demand payment from residents without sufficient incomes. Other social movements, such as the Education Rights Project and the TAC, address aspects of state delivery around schooling and health care.

Second, alongside these movements concerned primarily with the material conditions of the poor, are a number of social actions driven by what might be classified as positions of marginality arising out of or defined by identity. In some cases, such as that of economic migrants and refugees, identity may coincide with material deprivation but also gives rise to xenophobia and social and cultural exclusion resulting from not being readily accepted by host groups. The challenges facing this group are being addressed by organisations such as the Co-ordinating Body of Refugee Communities in Gauteng. Other identity-based groups such as People Against Gangsterism and Drugs combine religious concerns, in this case adherence to Islam, with a challenge to lawlessness and poverty in society. A variety of groups deal with the long-standing marginalisation of women who often bear the brunt of material deprivation and social exclusion. Identity-related concerns have also been taken up by groups such as the Gay and Lesbian Equality Project, which has made shrewd use of the legal system in order to end institutionalised discrimination against gays and lesbians.

Social movements, therefore, sometimes reflect the concerns of post-industrial middle-class groups for whom class is no longer a dominant basis of identity. Some forms of environmentalism fall into this category, although it would be over-simplistic to apply this logic to groups such as Earthlife Africa, which link their concerns for the environment with challenging socio-economic injustices. Identity is seen by the literature on new social movements to be the basis of post-industrial popular mobilisation (see McAdam et al. 2001). It is possible to suggest that, in South Africa, certain sections of post-industrial society, including new black elites, are finding expression through these forms. However, in the examples outlined above, we see that identity questions of citizenship, gender and sexuality often exacerbate material disadvantage and cannot always easily be divorced from it. Hence, issues of identity are not simply the concern of an indulgent 'classless' petit bourgeoisie. Indeed, there is a notable absence in South Africa of new social movements of the kind described in literature pertaining to the industrialised world, involving middle-class individuals concerned with their own privileged predicaments. Rather, it is the case that many social movements are as concerned with issues of social and economic justice and orientate their energies to poor sectors of society.

Third, social movements do not necessarily emerge spontaneously out of grassroots uprisings among the poor. To be effective and have reach, they are dependent on material and human resources, solidarity networks and often the external interventions of prominent personalities operating from within well-resourced organisations. For example, the TAC benefits from its leader, Zackie Achmat, having direct access to and public support from Nelson Mandela. The Education Rights Project emerged from the Centre for Applied Legal Studies and the Education Policy Unit located at the University of the Witwatersrand. The Concerned Citizens Forum was formed and driven by Fatima Meer, a well-known retired professor from the University of Natal, and Ashwin Desai, an independent writer. Leadership is sometimes shared between movements. For example, Trevor Ngwane is a high-profile leader associated with both the Anti-Privatisation Forum and the Soweto Electricity Crisis Committee. Such individuals are crucial to the very existence of movements not only because they organise effective campaigns, but also for their ability to leverage resources from donors who are increasingly allocating money to support court cases and other actions undertaken by social movements. Furthermore, the histories of these individuals, frequently linked to a track record in the liberation movement, provide them with access to key players within government for the purposes of accessing information and influencing policy. Solidarity among movements goes beyond shared leadership and, in South Africa, many are affiliated with one another and are mutually supportive. They have come together at particular global moments, such as the Durban Social Forum at the time of the United Nations Conference Against Racism (2001), the Social Movements Indaba at the time of the World Summit on Sustainable Development (2002) and for various anti-war protests in 2003. These solidarity actions may have the effect of building on local struggles and co-ordinating actions on a wider scale.

Fourth, despite the fact that leaders of contemporary social movements often have historical links with anti-apartheid struggles of the past, they are products of the opportunities and constraints generated by the post-1994 political environment. The new political, economic and social order is underwritten by a Constitution that enshrines first- and second-generation rights, a factor used by a number of social movements either to defend themselves or advance their campaigns. For instance, the TAC's successful court challenge against the government on the provision of antiretroviral drugs to HIV/AIDS sufferers was informed by a rights-based approach. It is undeniable that there has been an opening up of the state since 1994 and more democratic engagement with various societal forums. Increasingly, instruments and spaces have become available for the state to engage with civil society and, indeed, for civil society to challenge the state. Nedlac, the media, the courts and the Constitution are all formalised attempts to have public input into policies, and there is even support for mass demonstrations as mechanisms for influencing policy and challenging the government.

However, there are some negative features beginning to develop in the post-apartheid political system, some of which point to undemocratic tendencies in the highest echelons of government, including a stigmatisation of the 'ultra-left' and a desire to repress protests (Bond 2000: 140; Desai 2002). Vally, writing in a newspaper article in 2003, expressed concern about a trend towards authoritarianism in the post-apartheid political environment:

> In addition to the apartheid-era laws such as the Regulation of Gatherings Act, a smorgasbord of Bills, which gave the security and intelligence agencies additional powers, are in the offing. These include the Interception and Monitoring Bill, Intelligence Services Bill, the Electronic Communications Security (Pty) Ltd Bill, the National Strategic Intelligence Amendment Bill and the Anti-Terrorism Bill.

The perception is emerging, therefore, that the political freedoms anticipated for post-apartheid South Africa might not always be realised in practice.

Fifth, the engagement by social movements with the state falls along a continuum from in-system collaborative relations, at the one extreme, to out-of-system adversarial interactions, at the other. It is important to highlight immediately that there is a lack of consensus within social movements over the best strategic approach. Some fear cooption by the government and, therefore, wish to avoid collaboration of any sort, while others favour reformism or constructive engagement. While some movements such as the National Land Committee limit themselves to mass mobilisation, others choose to make extensive use of a wider range of democratic spaces afforded by South Africa's post-apartheid political system. One example of the latter approach is the celebrated 'Grootboom case' of October 2002, in which the Human Rights Commission and the University of the Western Cape's Community Law Centre, acting on behalf of an informal settlement, successfully took the government to the Constitutional Court in order to assert the right to adequate housing and services.

Given the existence of institutionalised avenues of action, social movements recognise that the most belligerent tactics may not be the most expedient way of achieving material goals, and it is often useful to apply both 'friendly' and 'unfriendly' pressure. For example, early successes by the TAC were achieved in the courts where they co-operated with the government in confronting global copyright laws around the use of generic drugs. This was followed by a second phase of attempting to force the government, through the forum of Nedlac, to provide drugs. When the TAC believed the government was becoming intransigent, it returned to the courts to force the Minister of Health, Dr

Manto Tshabalala-Msimang, to provide drugs that would prevent mother-to-child transmission. This was successful and was followed by a defiance campaign in an attempt to broaden provision. The campaign was then suspended in order to provide a face-saving way for the government to announce the provision of such drugs. Such calculations represent a constantly evolving relationship between the movement and the government where, through an extensive repertoire of tactics, the TAC has demonstrated that power does not reside exclusively with political or economic elites. It has shown that it is possible for even marginalised players to exert influence over policy and practice through various tactics such as shaming, de-legitimisation and even the threat to vote for another party. The terms of engagement may be shaped from both sides and the very presence of a social movement may influence a political order.

Nevertheless, it has to be asked whether the strategies and tactics adopted by the TAC are replicable in other issue areas. After all, the AIDS struggle has some unique features, drawing support as it does from across racial, class and other social backgrounds. Moreover, resources, expertise and skills are often the primary variables in influencing a movement's strategies and impact. Social movements representing and organising the disadvantaged and marginalised are more likely to be prone to out-of-system outbursts of mass anger than those in more privileged circumstances, which have the luxury of engaging in in-system collaborative interactions (see Guha 2000).

The last point we wish to make is that the systemic impact of contemporary social movements is likely to be facilitative of the consolidation of democracy in South Africa. Some, particularly in the government, see these social movements as a threat to stable democracy but our view is that this is an overreaction and represents over-sensitivity to political criticism. Social movements contribute to the plurality of civil society, which is indispensable to all mature democracies. Most of the contemporary social movements are membership organisations accountable to their constituencies and operating within the parameters of the new status quo. They pose no immediate challenge to the legitimacy of the government and there is still much loyalty to the Constitution. They are not, as yet, about overthrowing the existing order. Instead, they are about holding the government accountable for the delivery of promises made, and prising the political and socio-economic order open so that more constituencies can be included in its list of beneficiaries.

This systemic commitment of most social movements cannot be taken for granted. If significant sectors of society are consistently alienated from the political order and if a revolutionary party were to emerge, serving an alternative political pole around which the disaffected could coalesce, then social movements could become the building blocks for a new systemic project. However, that would require extreme unresponsiveness from the political authorities, significant alienation on the part of society and ultimately the emergence of a political party committed to seriously challenging the existing order. None of this exists, or is likely to emerge in the immediate future, but South Africa's political leaders should not become complacent. The surest route to realising such a state of affairs is when political elites forget their social contract with their citizenry and engage in the primitive accumulation of wealth through the mindless plunder of the nation's resources.

Conclusion

In sum then, our argument is that the emergence of social movements in South Africa is good for democratic consolidation. Of course, some of these movements might undermine the project of stability, but the assumption that all forms of stability and at all costs are necessarily good for democracy is a mantra that has to be challenged. Indeed, our argument suggests that stability within the prevailing status quo merely reinforces existing power relations and works to the disadvantage of poor and marginalised communities in South Africa. What is advocated, therefore, and what is beginning to be provided by established and emerging social movements, is the emergence of substantive uncertainty in the political system so that the leverage of ordinary citizens – the vote – can be given more weight and be taken more seriously by decision-makers and state elites. The vehicle for taking this agenda forward is to prioritise substantive uncertainty over political order in strategic organisation and in the country's developing democratic culture. The overriding political concern in South Africa since 1994 both within and outside the ruling party has been the realisation of political order and the institutionalisation of democracy. If the voices of those marginalised from the mainstream of the economy and from executive decision-making are to be heard, substantive uncertainty will have to be prioritised.

Notes

1 Civics is the name given in South Africa to community-level or area-based organisations of civil society.

2 Parts of this chapter are drived from Ballard et al. (2005) and Habib (2003 and 2005).

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21 Democracy and social movements in South Africa

Dale McKinley

The liberation struggle revisited

> [I]t is of less importance to us whether capitalism is smashed or not. It is of greater importance to us that while capitalism exists, we must fight and struggle to get our full share and benefit from the system. (Dr AB Xuma, President-General of the ANC, 1945, in Fine & Davis 1990: 52)

For the better part of three decades (from the early 1960s to the early 1990s), the dominant theoretical basis for the African National Congress' (ANC) liberation struggle had been cast within the necessity for the revolutionary seizure of power. Whether applied to the smashing of apartheid and the attainment of majority rule or as a springboard to a transition to socialism, the revolutionary seizure of power was presented as a necessary precondition for movement forward. Joe Slovo had put it this way:

> Thus there is a distinction between the creation of the new state form and the building of a new socialist economic formation. The former is made possible by a revolutionary seizure of power; the latter, through the exercise of that political power by a class whose interests are unconditionally served by a socialist order. (Slovo 1976: 146–147)

Many liberal and neo-Marxist academics, as well as numerous ANC-aligned intellectuals, have historically conceptualised arguments for a revolutionary seizure of power in narrowly statist terms. As a result, the (autonomous) state is given the status of the struggle 'throne', leaving revolutionary (purposive) struggle cast in terms of a fight for a specific form (structure) of power rather than its foundation/content. If such an approach is adopted, either theoretically or practically, there emerges a false dichotomy between the political and the socio-economic 'sides' of revolutionary struggle. Thus, political control of the state can be achieved with no corresponding transformation of the economic sphere; and we only have to take one quick glance at the contemporary results of most Third World political revolutions to see what kind of national liberation has been delivered. In the historical context of the South African struggle, then, such approaches have provided the basis from which to lend both revolutionary credence to purely political change and ammunition for critics of any revolutionary struggle that is outside the theoretical (read: strategic) and practical (read: institutional) boundaries demanded by liberal bourgeois (capitalist) democracy.

However, there is nothing implicitly statist in any struggle for revolutionary change. What is implicit, though, is that there must be a fundamental attack on the entrenched economic and political interests of capital (in whatever form) in order for there to be meaningful liberation. As the ANC had put this quite clearly in the 1970s:

> It is therefore a fundamental feature of our strategy that victory must embrace more than formal political democracy. To allow the existing economic forces to retain their interests intact is to feed the root of racial supremacy and does not represent even a shadow of liberation. (Slovo 1976: 111)

Yet, the cumulative effect of the strategic and tactical programme of the ANC's liberation struggle, consummated in the period of a 'negotiated transition' in the early 1990s, was to demobilise gradually the only constituency capable of leading and carrying through such a revolutionary struggle – the broad working class made up of organised workers and the unemployed. The strategic primacy given to the achievement of a narrowly conceived national and liberal bourgeois democracy allowed for a fundamental contradiction to permeate South Africa's 'transition to democracy', namely, that the ANC's own base constituency (the broad working class) has had to take a transitional back seat to a whole host of powerful social and economic forces, both national and international, whose fundamental interests are inimical to revolutionary political and socio-economic transformation.

The strategic statism of the ANC's struggle for national liberation consistently underestimated and seriously undermined the potential and actual struggles of the ANC's own working-class constituency. More specifically, the political strategies of the liberation movement led to a lack of recognition and incorporation of actual struggles on the ground that were, themselves, grounded in a struggle for political and socio-economic liberation from apartheid capitalism. The false separation, both theoretically and practically, between political and socio-economic change that emerged out of the negotiated settlement meant that processes such as democratisation took on a narrow bourgeois, nationalist and predominantly political meaning and context in which changes in socio-economic power relations were subordinated to changes in who controlled the seat of political power (that is, a privileging of the economic status quo – capitalism – and the institutions of bourgeois democracy essential to its maintenance).

The foundations of the post-1994 democratic divide

> The device by which content is replaced by form and ideas by phrases has produced a host of declamatory priests … whose last offshoots had of course to lead to democracy. (Marx & Engels 1977: 243)

When South Africa's first ever one-person, one-vote elections in 1994 resulted in an overwhelming victory for the ANC, the majority of South Africans understandably celebrated the arrival of a new democracy. After all, the ANC and its liberation movement allies were now in political control of the state thanks to the votes of those who had, throughout South Africa's modern history, been denied the right of institutionalised democratic participation. Accompanying this, however, there still remained a broad-based (but ultimately mistaken) expectation amongst the black majority that the new ANC state would immediately begin to pursue a more socialist – or at the least, radically redistributive – political economy.

Besides the contextual backdrop of militant, mass-based political and socio-economic struggles that had been waged since the mid-1980s alongside the continued radical rhetoric of the ANC itself, such an expectation was fuelled by the ANC's adoption of the Reconstruction and Development Programme (RDP) as the main policy platform on which it had based its electoral campaign. With its rhetorical centrepiece being the creation of a 'people-centred society', the RDP proposed to pursue growth and development through reconstruction and redistribution, sought a leading and enabling role for government in guiding a mixed economy, prioritised the meeting of basic socio-economic needs for the poor majority and argued for a living wage as a prerequisite for achieving the required level of economic growth.[1] The millions of organised workers and unemployed who had provided the ANC with both its political and organisational power looked to the RDP's promises to create millions of jobs, provide massive increases in infrastructure, meet basic social needs and redistribute large amounts of white-owned land.

It did not take long, however, for the new ANC state to make it known that the basis upon which the objectives outlined in the RDP were to be approached would be through a tightly controlled macroeconomic balance. Thus, at the same time that the RDP was being seen by ANC supporters and most black South Africans as the framework for a more radical and substantive shift in the country's political economy, the ANC government was stressing the need for fiscal discipline, export-oriented growth, privatisation and decreased levels of corporate taxation (Habib & Padayachee 2000).

Importantly then, the first two years of South Africa's new democracy witnessed the ANC's gradual, even if at times contested, political and ideological acceptance of the broad framework of a globally dominant, neo-liberal political and economic orthodoxy.[2]

In these early transitional years, the ANC cleverly sought to utilise the all-encompassing, legitimating argument of liberal bourgeois democracy, namely, that 'its link to society is held to be that it operates at the level of the general interest' (Levin 1989: 140). When coupled to the more practical global offensive of internationalised corporate and finance capital (otherwise known as neo-liberalism), it then appears as though liberal bourgeois democracy has taken on the mantle of a necessary and natural political product of an equally necessary and natural economic order. Under such a scenario, democracy itself becomes synonymous with the capitalist 'free market' and everything else is merely about degrees and emphases.

Crucially, the rightward ideological shift of the ANC was paralleled by the systematic dismemberment, or incorporation into the organisational framework of the ANC itself, of almost all independent and allied community organisations in South Africa (whether 'civics', women's organisations or youth groupings). By the mid-1990s the vast majority of those community organisations that had been so central to the radicalisation of the anti-apartheid struggle and that had sustained the hope of millions for an anti-capitalist transformation of South African society had been swallowed by the ANC and, to a lesser, extent by its tripartite-alliance partners, the Congress of South African Trade Unions (Cosatu) and the South African Communist Party (SACP).

As a result, the political and organisational terrain for active and militant resistance to the ANC's creeping neo-liberalism, elite deal-making and wholesale acceptance of the institutionalised framework of bourgeois democracy was effectively contained within the ANC and its Alliance partners. In turn, this ensured (in the short term, at least) that the possibilities for independent, mass-based and anti-neo-liberal organisation and struggle were severely curtailed.

The ANC's political decision to turn its back on previous commitments to its broad working-class constituency to implement more radical socio-economic policies was then institutionally codified with the formal unveiling of the overtly neo-liberal Growth, Employment and Redistribution (GEAR) macroeconomic strategy in mid-1996. GEAR committed the ANC state to: slashing government spending (as a means to reduce the Budget deficit); keeping inflation in single digits (through high real interest rates); providing tax holidays and other incentives for corporate capital; phasing out exchange controls; creating a more 'flexible' labour market; encouraging 'wage restraint'; and speeding up the privatisation of state assets.

Key to the future political role for, and economic impact on, the millions of workers and unemployed, though, was GEAR's choice of socio-political 'vehicles' for carrying through the 'transformation' of South Africa's political economy. GEAR proffered that a combination of economic affirmative action (through land distribution to a new class of black commercial farmers and state assistance to emerging black industrial entrepreneurs) and new black economic empowerment initiatives through 'partnerships' with corporate capital, would best 'deliver' the desired outcomes of economic redistribution, equity and growth as well as job creation. Just as GEAR rubbished any latent applicability of the RDP as the vehicle for economic transformation, so too was the oft-stated 'leading' role of the ANC's historic mass base – the millions of workers and unemployed – rubbished as the vehicle for the socio-political transformation of post-apartheid South Africa.

By the mid-1990s, if not before, it should have been clear to anyone paying attention that anti-capitalist class-based struggle, generated and led by organised workers and the poor majority, had been fundamentally rejected by the ANC as a strategy for political and socio-economic change. Rather, the ANC's strategic path was now firmly located within its earlier acceptance of a negotiated solution that politically institutionalised bourgeois democracy and, economically, laid the foundation for a de-racialised South African capitalism.

Nowhere have the political and organisational consequences of such a strategy been more acutely realised than in relation to the political role of the ANC's key alliance partners. Their acceptance of an unequal political relationship within an ANC-dominated alliance[3] has served to tie organised workers and large numbers of community activists into a false sense of ideological and strategic unity and to continuously weaken the ability of the broader working class to fully engage in independent and anti-capitalist class struggle. In turn, this surrendering of political, and thus organisational, independence has facilitated the believability in the interlinked notions (energetically propagated by the ANC and alliance leaders) that South Africans can 'find' a 'national consensus' about the economic and social path upon which the country should travel, that class struggle can be effectively 'suspended' and that the contradictions emerging can be successfully managed.[4] Thus, at the same time that the ANC state moved full steam ahead with the implementation of GEAR in the mid-to-late 1990s, the main organised forces capable of leading a collective working-class struggle against the logic and practical effects of capitalist neo-liberalism succumbed to the exigencies of the ANC's full embrace of bourgeois politics.

Not surprisingly, such subjective choices could do very little to stem the effectual tide of objective realities that were being experienced by workers and poor communities across South Africa. Massive job losses were visited upon those members of the South African working class who had been fortunate enough to be employed, the 'experience' being accompanied by all the attendant social and economic devastation to already poor families and communities. To make matters worse, the ANC state also implemented basic-needs policies that effectively turned such needs/services into market commodities, to be bought and sold on the 'free market' and framed by the pursuit of profit. This was facilitated by a drastic decrease in national government grants/subsidies to local municipalities and city councils and support for the development of financial instruments for privatised delivery. In turn, this forced local government to turn towards commercialisation and privatisation of basic services as a means of generating the revenue no longer provided by the national state (McDonald 2000).

The logical result of these developments was a huge escalation in the costs of basic services and a concomitant increase in the use of cost-recovery mechanisms such as water and electricity cut-offs that necessarily hit poor people the most. So, between 1999 and 2000, over 75 000 water cut-offs occurred in the Greater Cape Town area (McDonald & Smith 2002: 41). During 1999, close to 20 000 houses had their electricity supplies cut off every month in Soweto, with Brian Johnson, the manager of Eskom, openly boasting that, 'the aim is to disconnect at least 75 per cent of Soweto residents' (*Mail & Guardian* 6–12 April 2000). By the turn of the century, millions more poor South Africans had also experienced cut-offs and evictions as a result of the ANC's neo-liberal orgy (see McDonald & Smith 2002; Cottle 2003). Similarly, the ANC state's capitalist-friendly land policies, which ensured that apartheid land ownership patterns remained virtually intact, meant that South Africa's long-suffering rural population continued to taste the bitter fruits of labour exploitation and landlessness.

It was the cumulative result of such experiences, combined with the failure of the main traditional forces of the South African working class (e.g. Cosatu and the SACP) as well as 'civic' structures like the South African National Civics Organisation (Sanco) to lead and sustain counter-mobilisations and active class resistance, that eventually saw the rise of new social movements.

The rise of the new social movements

> We must understand that the new democracy cannot allow for hostile surveillance of the democratic process and the participants in this process. (Mbeki 1994)[5]

At first in South Africa's main urban centres, and then later in rural communities, a collection of social movements arose to challenge water and electricity cut-offs, housing evictions, forced removals and lack of land redistribution. As Ashwin Desai (2002) has noted:

> The rise of these movements based in particular communities and evincing particular, mainly defensive demands, was not merely a natural result of poverty or marginality but a direct response to state policy. The state's inability or unwillingness to be a provider of public services and the guarantor of the conditions of collective consumption has been a spark for a plethora of community movements [and] the general nature of the neo-liberal emergency concentrates and aims these demands towards the state … activity has been motivated by social actors spawned by the new conditions of accumulation that lie outside of the ambit of the trade union movement and its style of organising. What distinguishes these community movements from political parties, pressure groups and NGOs is mass mobilisation as the prime source of social sanction.

The rapid growth of social movements and their increasingly militant opposition to the policies of the ANC-run state from the late 1990s soon led to a rupture between those organisations/movements opposed to the ANC state's political trajectory and economic policies and those that chose continued (even if at times critical) loyalty to the ANC 'line'. This was best exemplified in the run-up to, and during, the August 2002 World Summit on Sustainable Development (WSSD), which saw a decisive split between the two 'camps' – the former gathering together under the rubric of the Social Movements Indaba (SMI) and the latter collectively grouped under the Civil Society (People's) Forum. The most visible result of this developing fault line were the dual Alex-to-Sandton marches on the WSSD, with the march by the SMI and allied formations such as the Landless People's Movement attracting 25 000 people onto the streets, and the ANC-backed Forum march attracting fewer than 5 000 (SMI 2002).

This developing fault line represents nothing less than a clear ideological and organisational divide amongst historically progressive forces in South Africa. The bulk of the new social movements represent those who still believe in principled internationalism and the possibility of a non-capitalist future, who increasingly desire to push beyond the enforced barriers of institutionalised bourgeois democracy and who pursue an independent, mass-based mobilisation and struggle as the only meaningful and realistic option for resisting global neo-liberalism and forging an ideological and organisational alternative to the capitalist ANC.[6]

On the other side stand the 'traditional' progressive forces in South Africa, represented in the main by the various leaderships of Cosatu, the SACP, Sanco and the South African National NGO Coalition. While employing left (socialist) rhetoric and proclaiming organisational independence, they have critically accepted the ANC state's capitalist developmentalism, lost what confidence they did have in the 'leading role' of the broad working class (both domestically and internationally) and chosen institutionalised 'democratic' privilege and access – all rationalised by reference to historic alliance loyalties, the necessities of the 'national democratic revolution' and the 'realities' of global capitalism.

The immediate response of the ANC state to the emergence and activities of the new social movements was to embark on a political propaganda campaign that sought to portray these movements and their activists as 'criminals' and 'anarchists'. When this seemed to have little effect on the activities and growth of the social movements, the ANC leaders chose to use the state's repressive apparatus to launch a co-ordinated 'law and order' crackdown. This culminated in physical assaults on, and arrests and imprisonment of, hundreds of social movement activists and community members across the country before, during and after the WSSD.[7]

When Cosatu's affiliated unions, energetically supported by several social movements, embarked on an anti-privatisation strike soon after the WSSD (despite the alliance leadership's attempts to negotiate the strike away), a more systematic and high-level ANC propaganda campaign kicked into gear. The ANC accused all those who were actively critiquing and opposing its neo-liberal policies and the democratic content of its governance as being an 'ultra-left … waging a counter-revolutionary struggle against the ANC and our democratic government', and of siding with the 'bourgeoisie and its supporters' (ANC 2002). President Mbeki waded in by claiming publicly that 'this ultra-left works to implant itself within our ranks … it hopes to capture control of our movement and transform it into an instrument for the realisation of its objectives' (Mbeki 2002a). Mbeki went further: 'They should also have known that the people know that, historically, those who opposed and worked to destroy the ANC, and tried to mobilise the workers to act against our movement, were the same people who sought to entrench and perpetuate their oppression' (Mbeki 2002b).

Such shrill and high-level attacks on the new social movements (and that minority in Cosatu, the SACP and other allied organisations who continue to actively resist ANC state policies) have only served to widen the political and class fault lines that now so clearly divide South African society. Indeed, this appears to be precisely what the ANC desires as the tactical means to pursue a strategy of 'divide and rule', specifically as applied to those forces on its left. This was confirmed later in 2003 when ANC Deputy Secretary General, Sankie Mthembi-Mahanyele, distinguished between 'positive social formations' (that is, those who have responded positively to the state) and those with whom 'we have a bit of a problem'. She added: 'We are a young democracy … we need a consensus. So we cannot behave in a manner like societies [that have been] independent for many years' (Merten 2003).

What better and more convenient way to confirm the presence and evident threat of an enemy of the state, democracy and 'the people', while affirming the ANC and the state as the guardians of that democracy and the handmaidens of those 'people', than to let loose the vultures of insinuation, caricature and demagoguery? Worse still, to effectively proscribe anti-capitalist (and, thus, anti-state) dissent and struggle and to declare the political, and indeed moral, inviolability of an enforced, institutionalised bourgeois democracy. The script has been all too familiar – manufacture an 'enemy', construct its self-fulfilling destructive character and purpose and then launch a sustained assault against it under the guise of rationality, 'law and order', the nation's political heritage and identity, the preservation of democracy and, of course, in the name of the 'people'.

Democracy and the state under capitalism

> The political system of liberal democracy looks more and more like a mixture of plebiscitary dictatorship and corporate oligarchy. (James Cornford, in Levin 1989: 145).

The starting point for any meaningful understanding of, and practical engagement in/with, democracy is a theoretical base. Unfortunately, the dominant theoretical construct that has informed interrogations of, and approaches to, South Africa's 'democratic transition' – that is, capitalist (bourgeois) liberalism – falsely separates democratic form and content/context. As such, democracy is conceptualised outside of its historical materialist base as some sort of neutral principle floating somewhere outside material relations. The result is that we are left with a single analytical starting point, namely, that democracy is a function of institutional arrangements within capitalist society. In turn, this leads to the concept of class and the practice of class struggle being understood solely in relation to the dominant, contemporary institutional form of democracy under capitalism (i.e. representative democracy).

The generalised failure to grasp the theoretical nettle of democracy under capitalism necessarily leads to a focus on existing institutions of representation as the axle upon which any meaningful social and political activity turns. In relation to the character and content of the various struggles of South Africa's new social movements, then, the main argument, vigorously punted by ANC/alliance intellectuals, becomes one about the necessity for social movements to accept, and participate in, the institutional 'democratic' framework ('institutionalised politics') as a legitimate and acceptable means to impact on, and potentially change, both state and society (Sachs 2003: 23–27).

The conceptual heart of this argument is fundamentally embedded within the precepts of classic bourgeois liberalism, in other words, that institutionalised pluralism (a multiplicity of organisational forms) is the essence of democracy, regardless of the dominant social relations within which such pluralism operates. The problem here is obvious – such an institutionalisation, under capitalist social relations, has always and everywhere led to an inevitable 'democratic' sterility. Pluralism simply becomes a catchword for a range of organisational and individual voices that are contained and limited within the narrow institutional and political confines of liberal bourgeois democracy, which offers precious little in the way of seriously contesting the parallel character and content of a capitalist state and the policies it implements.

There is no space here for fundamental (revolutionary) systemic challenges or for an alternative politics that is not bounded by status quo institutionalism. The sterility that inevitably derives from this approach has been more than evident over the last ten years, in relation to South Africa's traditional political and social organisations/movements. It is clear for all, except those still wearing their 'transitional, national democratic revolution' blinkers, to see the devastating effects of this institutionalised sterility on the long-term capacity of working-class organisations and poor communities to effectively challenge the agenda of capital and the state institutions that now act, in the main, as the 'public' arm of the private (capitalist) sector. Regardless of the institutionalised pluralism that has accompanied processes of political democratisation since 1994, the South African state remains a capitalist state (albeit a de-racialised one). Those social forces that remain oppressed and exploited under the 'guidance' of such a capitalist state thus have every reason to practise their politics predominately outside of its institutional boundaries, and that can also include associated electoral processes.

While the state (both in general terms and as applied to South Africa) is a complex entity possessing its own set of internal contradictions, it is not a neutral institution that can somehow be enveloped and radically transformed through participation in its associated institutional 'network' (including elections). States are, as Marx so cogently argued, the organic repressive and ideological apparatuses of a class, and in South Africa's immediate future that class is capitalist. This is regardless of the hypocritical attempts by the new black elite (both inside and outside the state) to present themselves as part of the broad working class and somehow suspended above material relations and class realities.

Certainly, the South African state has played, and will continue to play, a role that is not necessarily always in line with the highest expectations and demands of corporate and finance capital; it will no doubt, for example, continue to play a part-time welfarist role that tries to smooth over class conflict and struggle. However, while capitalist relations remain the driving force in society, the state will always imbibe and reflect those dominant relations in the most specific of ways. The kind of classless analysis of democracy and the South African state that presides over it, which passes for critical intellectual endeavour, leads directly to the kind of quiescent and sterile 'institutional politics' that most of South Africa's new social movements want to avoid and transcend.[8]

If, as a sizeable section of South Africa's new social movements do, we understand contemporary politics under capitalism as the continuing practice of class struggle, then we can also understand why the existing state, its institutionalised politics (i.e. bourgeois democracy) and its socio-economic policies are seen, and treated, as a central target of that practice. The democratic content of that practice cannot be manufactured and/or imposed. Those struggling to create new avenues of political expression and to free themselves from the shackles of capitalism's 'democracy' will create it.

Representation and social transformation

The analytical (contextual) focus on 'representative democracy' that has come to dominate notions of contemporary democratic content and practice has, in South Africa, come to represent the foil against which the organisational trajectory and practical activities of the new social movements should be adjudged. It is not, however, representative democracy that has seen a 'flowering' of social movements. Rather, it has been the inexorable push towards more inclusive and meaningful forms of direct and participatory democracy, which have little or nothing to do with the institutional forms of representation within bourgeois 'democratic' society, that provides the contextual background to the genesis and rise of social movements in South Africa.

One of the ANC's up-and-coming young intellectuals, Michael Sachs, has argued that those social movements that position themselves in opposition to representative democracy will remain marginal to the process of social transformation (Sachs 2003). This represents an approach that conflates the institutional forms of representative democracy, and the politics thus produced, with the democratic practice/activism that arises out of class struggle in a capitalist society. The 'new' social movements arose out of, and have been shaped by, direct opposition to specific state policies and actions, not representative democracy itself. It is Sachs' kind of self-constructed and uncritical acceptance of the political primacy of representational institutionalism that allows the ongoing struggle for democracy to be viewed as a simple exercise in finding the best way to fit into the existing institutional (capitalist) order while mitigating its effects on the poor/workers. It is the same tired old mantra that has been discussed, and (to a lesser extent) pursued, for decades amongst so-called progressives/leftists who have occupied state power. And, what has been the result? More inequality, more oppression, less freedom, more poverty and certainly less democracy.

If the entire arena of class/political struggle under capitalism is pre-framed as one in which there are no strategic and tactical choices other than to work within the representational parameters of capitalist 'democratic' institutions, then any (proto) revolutionary class struggles against capitalism are being effectively proscribed. Here, there is absolutely no room to view and practise 'engagement' with such institutions from a perspective of independent and anti-capitalist class politics and struggle.

It is not that South Africa's new social movements see all democratic institutions as 'dangerous mechanisms for the co-option of the poor' or view the vote (within the present capitalist framework) as 'meaningless' (Sachs 2003: 25–26). Rather, it is simply a matter of understanding that a reliance on formalised participation in such institutions, which includes participation in electoral politics, is inherently incapable of fundamentally transforming social relations (that is, as long as capitalist property relations remain the bedrock of social relations). Most social movement activists have no illusions about the revolutionary efficacy of such institutions, whether or not the former liberation movement (which has now become the main political vehicle for the class interests of a new black bourgeoisie) occupies a dominant position within them.

Indeed, South Africa has already entered into the terrain of a low-intensity and commodified democracy. This is a terrain in which the mere existence and functioning of representative democratic institutions and processes increasingly mask the decline of meaningful popular democratic participation/control, where elections have become the political playground of those with access to capitalist patronage and where electoral choice is reduced to different shades of grey.

This has not meant, however, that various social movements have been unwilling to utilise the institutional mechanism of the vote as a tactical means/space to put forward alternative ideas and positions, to expose the neo-liberal agenda of the ANC-run state and, most importantly, to mobilise the poor outside of the institutional framework of the mechanisms of their own oppression. Democracy must not be conflated with the formal institutions that have been tailored, under capitalism, to channel expressions of 'popular democracy'.

While there is no doubt that some of the material and social interests of the poor majority can be partially realised through political representation in the institutions of bourgeois democracy – something that has been the case since the introduction of the universal franchise in all 'modern' capitalist countries – the most crucial question is most often not even posed: How can the poor majority realise (and where have they realised) a different, non-capitalist society by defining and 'ring-fencing' their struggles within the institutional framework of capitalist representative (democratic) institutions?

There is no necessary or inherent connection between participation in such an institutional framework (through utilising the vote, representation in state bodies, etc.) and the 'deepening of democracy' in ways that can make a systemic difference in the lives of the broad working class under capitalism. What is actually 'deepened', though, is the breadth of the institutional framework (the forms) but not the content of popular democracy itself. Fundamentally, then, institutionally-bound forms of 'popular democracy' can have no real long-term meaning or effect as long as capitalist social and material relations remain politically and organisationally unchallenged.

Facing realities

Most of South Africa's new social movements (and the poor who make up those movements) have, unsurprisingly, exhibited little desire to be part of the institutionalised mainstream of South African politics. This is precisely because these movements have been born out of the very failures and betrayals of South Africa's main political 'currents' and the institutional democratic framework that gives them contemporary, but lessening, legitimacy.

The fact that the social movements are presently outside of the mainstream of South Africa's institutional politics is representative of a reality that the ANC and its alliance partners appear wholly unwilling to face – that an increasing number of poor South Africans no longer see active participation in the present institutional set-up of 'representative democracy' as being in their social and material interests. Empirical confirmation of this can be easily found in the rapidly declining numbers of poor who actually use their vote (especially at the local level), and this only ten years after the 'victory of democracy' for which they fought so long and hard.

The complementary fact that millions of South Africans have registered to vote does not, in any way, then mean that the present representational mechanisms of institutional democracy are the answer to the democratic aspirations of the majority of South Africans. What it does mean, though, is that the majority continue to look, either passively or actively, to institutional representation precisely because there are, presently, few (in depth and breadth) alternative avenues for democratic expression. The social movements are just at the beginning of struggling for, and building, such alternatives and it is to be expected that their size, appeal and actions will (for some time) continue to be up against the inherited and accumulated 'legitimacy' of bourgeois representative democracy as practised, supported and institutionalised by the ANC. If that constitutes being on the margins instead of the mainstream in the short term, then that is exactly where the social movements should be and, mostly, want to be.

In many poor urban and rural communities, it is through the activities of the new social movements that an increasing number of people experience and practise meaningful democracy. Indeed, it is no coincidence that the growing impact and popularity of the daily 'bread and butter' issues and struggles taken up by the social movements are directly linked to the adverse effects of the ANC government's neo-liberal policies on the poor majority, which are most acutely experienced through the 'offices' of the various institutional mechanisms of representative democracy.

If, in the coming years, the struggles of the social movements intensify, both qualitatively and quantitatively, then it will be the equally intensifying failures of a capitalist state and its bourgeois (neo-liberal) politics that increasing numbers of the broad working class will be struggling against. Real democracy cannot be achieved and/or measured by institutional representation, processes and proclamation, but can by consistent and radical popular participation and mass struggle to ensure that the fundamentals of life are the property of the *demos*, not of a state, not of a political party and not of a capitalist elite.

Notes

1 For a detailed exposition of the 'fundamentals' of the RDP, see NIEP 1996.

2 This was ameliorated, to some extent, by a period of intense legislative activity designed to repeal apartheid-era discrimination and facilitate new social and economic opportunities for 'historically disadvantaged' sectors of the population.

3 This acceptance has not been without its vocal critics within both Cosatu and the SACP. For a detailed treatment of debate and opposition within the alliance since 1994, see McKinley (2001).

4 For an overview (since 1994) of the varying contents and consequences flowing from this reality, see McKinley (2003).

5 This document, which remained in the possession of a select few ANC-alliance hands until the late 1990s, was penned when Mbeki was ANC Deputy General Secretary, and was circulated amongst the alliance leadership prior to the ANC's 49th National Conference in December 1994.

6 For a more detailed exposition of these positions, see Apollis (2002). Amongst the new social movements, however, there have been (and continue to be) substantive organisational differences and political/ideological debates. While the social movements do not represent some kind of homogeneous entity, they have become inextricably bound together by the levelling content and common forms of the neo-liberal onslaught (both nationally and, to a lesser extent, internationally).

7 For an extended critical analysis of the WSSD and the role of the ANC state's attempts to repress opposition to it, see Bond (2002). Also see the excellent collection of essays in Kimani (ed.) (2003).

8 Eric Hobsbawm's (1973) argument that intellectuals who have been part and parcel of a revolutionary party/liberation movement most often retreat into the 'posture of the (liberal) advocate' once they have realised that the politics-ideology of that party/movement is not going to deliver what was expected, rings true in the South African case.

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22 Post-apartheid livelihood struggles in Wentworth, South Durban

Sharad Chari

Introduction

Wentworth and Merebank are two communities embedded in the mixed residential–industrial landscape of South Durban in eThekwini Unicity.[1] On opposite sides of Duranta Road, formerly racially defined 'Indian' Merebank and 'coloured' Wentworth continue to live with the environmental and social costs of apartheid spatial planning.[2] With roughly similar populations, of 27 000 for Wentworth and 21 000 for Merebank in 2001, both have lived with similar indignities, such as breathing benzene emissions from heavy industry all their lives. Although Merebank's residents have only slightly higher household incomes, and slightly lower unemployment levels, Wentworth today is a hotbed of political activism while Merebank is comparatively quiescent.[3] Wentworth has become more strongly ghettoised in the analytical sense proposed by Wacquant (2004) as a process involving stigma, constraint, spatial confinement and institutional containment.[4] Although its residents have come from all over South Africa, or perhaps the world, this diverse product of the attempt to legislate against 'miscegenation' is now largely mired in place. Across the road, Merebank's quiescence emerges from a very different history of space, through which a former village on the outskirts of Durban has been pulled apart and has become part of the cultural, political and economic fortunes offered by the new South Africa. This chapter is based on ongoing research on divergent histories of space through which livelihoods and senses of belonging in what Marais (1998) has called the unfinished work of post-apartheid hegemony have been shrinking into a rebellious ghetto, on the one hand, and broadening into circuits of class, culture and social citizenship, on the other.[5]

The focus here is on emergent livelihood struggles in Wentworth, which focus on entitlements of labour and environment, ten years after universal franchise. The pre-history to these events in coloured Wentworth is a relatively recent past. An unexpectedly large number of coloureds were thrown out of backyard tenancies throughout the city of Durban, along with the advancing expropriation of Indian-owned land, in the application of the Group Areas Act. This large population of coloured tenants from places like Mayville, Cato Manor and the city centre were relocated together with coloureds from the Eastern Cape in former military housing in the neighbourhood of Austerville in Wentworth. The Group Areas Act was something of a blessing in that it offered improved housing to coloureds and, therefore, it would seem, drew them into a structural relationship of complicity with the planners of apartheid. However, this complicity was primarily a presumption, and residents drawn from far and wide into cramped flats next to refineries found their lives shaped by new forms of violence and constraint.[6] Wentworth's residents have acted in relation to violence and constraint in four key realms: gangs, sport, church and migrant labour. Wentworth's residents have often claimed waves of intense gang activity since the late 1960s as a direct consequence of the Group Areas Act, as portrayed at an exhibit on Wentworth's gangs at the KwaMuhle Museum in 2001. Of these complex and intertwined histories, this chapter is confined to connections between the primary labour regime that has used and discarded male industrial labour, and the civic activism that has emerged in a time of rising unemployment.

Indeed, the most fortunate of Wentworth's men have been shaped into the pre-eminent semi-skilled industrial migrants of South Africa. They are the pipe-fitters, boilermakers, fitters and turners who have been at the centre of industrial construction work across South Africa's refineries. It is, therefore, with painful irony that they return to live in unemployment at the footsteps of the oil refineries of South Durban. As these unemployed artisans have entered the sphere of labour and environmental activism, they have had to confront the gendered fissures through the entire community, and the broader challenges of maintaining their livelihoods in the context of largely jobless growth in a toxic soup. Indeed, in the wake of possibly widespread industrial expansion in South Durban, both the city and the ruling alliance have held it important to seek the consent of representatives from Wentworth, and South Durban more generally, over their fate in this changing residential–industrial geography. The question of who will play 'community stakeholder' in relation to eThekwini Metro and the ANC continued to be a fraught point as of late 2004.

In the uncertain, unfinished process of social transformation, 'civil society' has emerged as a broad, polysemic terrain of debate, work, aspiration and control (Comaroff & Comaroff 1999). Variously considered, civil society condenses a wide variety of experiments over what politics in post-apartheid society means and how people sign up. Within these realms of experiment and engagement, some have suggested two broad poles of opinion with respect to how civil society ought to act in relation to wider processes: on the one hand, as a voluntary sector or handmaiden to the democratic, developmental state, and, on the other hand, as a countervailing force that perpetually challenges state and corporate power, typically through 'social movements' (see, for example, Greenstein 2003; Ballard, Habib, Valodia & Zuern 2004). Wentworth's civics internalise this dichotomy in round after round of fierce debate about precisely the question of whom to negotiate with, how and to what extent. Participants in civic or activist groupings manoeuvre between overtly technical-participatory and politicised-confrontational positions through the course of single campaigns, for reasons that go beyond abstract commitments to resistance or collaboration. Indeed, what Michael Burawoy (2003) calls 'active society', mobilised against commodification and in the defence of livelihood, remains a hotly negotiated and not necessarily coherent process.[7]

How is this 'active society' mobilised, and what are its challenges? The civil and political in post-apartheid South Africa are constituted through enormously varied forms of praxis, far exceeding canonical genres of struggle narration. Research on post-apartheid social movements is only beginning to ask what alternate histories of mobilisation, and what new conceptions of 'community', activate political imaginations in relation to former liberation leaders.[8] With few exceptions, the activist intellectuals who write for and from today's popular struggles against post-apartheid neo-liberalism, despite their wealth of practical knowledge, are only beginning to represent these complex histories with an attention to black cultural production and the related difficulties in building solidarity across different ways of understanding politics, community, struggle, work, desire, nature and life.[9]

My central concerns in this chapter are with tracking two important strands of activism in Wentworth, to chart some of their trials, limits and possibilities. First, I explore how a militant form of labour unionism, focused on certain marginal workers, has emerged in Wentworth, and how a section of this activism has been drawn into the challenge of worker co-operatives. Second, I ask how environmental justice activism has emerged in the same milieu, to a different set of struggles with state, capital and community. I conclude by turning to the strongly gendered and religious community, which is the site of struggle and the terrain on which labour and environmental struggles are sustained between high points of activism. This small but complex terrain of struggle reveals the complexity of post-apartheid livelihood struggles in microcosm, and some challenges in the analysis of civic politics ten years after universal franchise.

Work in a time of unemployment

Census data show that at least a third of the population between the ages of 15 and 65 is unemployed; a sizeable group is unable to work due to illness or disability; an equally sizeable group either chooses not to work or could not find work; and a significant group is comprised of currently unemployed seasonal workers. Of those who are employed, a large share is in building trades and in metal or machine trades, as well as in health-associated professions. Census data by sex suggest a gender division of labour in which Wentworth men have been tracked into manufacturing and construction, while Wentworth women have worked in wholesale/retail, community/social/personal services, and manufacturing. A large section of the local population are individuals and households with 'no income', for whom legal, waged work is 'not applicable', which Statistics South Africa translates as 'not economically active'. In contrast to neighbouring Merebank, the category for which legal, waged labour is 'not applicable' is similarly high for both women and men in Wentworth.[10]

In the context of deepening unemployment with minimal self-provisioning, and where most if not all consumption goods are commodities, even informal or unwaged work must be underwritten by income earned somewhere. At least some part of this income in Wentworth is sought through theft, sex work and drugs, all of which eat away at individual and community resources, adding to the indignities and infirmities that come from living next to heavy industry. In the context of a dramatic decline in forms of legal waged work, families of various sorts rely on pensions, child support and disability grants, some legal waged work and some illegal waged work, all cross-subsidised by unwaged care-work, primarily of women who take care of the young, infirm and injured, and who share some resources through community welfare organisations. This is the landscape of work within which labour and environmental activism has emerged.[11]

The labour that brings the strongest sense of both pride and forced commitment in Wentworth is itinerant industrial work at the refineries. As a way into the history of industrial work undertaken by Wentworth men, I turn to the career of one industrial artisan, Lenny Samuels, whose life illustrates some important features about the transformation of work in a time of rising unemployment.[12] Samuels speaks with great gusto about the way in which he was forced, through a series of contingent events, out of higher education and a route to becoming a foreman, into the stereotypical coloured male occupation of artisanal industrial labour. For most of his subsequent life, Lenny either worked on limited duration contracts at the Engen refinery in the middle of Wentworth,[13] or he travelled the length and breadth of South Africa to work at Richards Bay, Sasolberg and Saldhana.

Lenny also tells a complicated story about changing labour relations at the Engen refinery, in the middle of Wentworth, through the 1980s and 1990s. In his rendition, permanent labour had made a shift from being almost entirely white to more Indians and some coloureds. Workers from Wentworth were primarily hired on limited-duration contracts for maintenance work during the annual shutdown, reinforcing the stereotype that artisanal industrial work is the coloured man's natural lot. In the last decade, the refineries started using labour brokers, following major strikes in the 1980s. Outsourcing really took off in this period, and Engen stabilised its relations with local labour in various parts of Wentworth by building ties with ex-gangsters. 'Gang leaders actually became labour brokers. It was a mob thing. It's not been broken,' says Lenny. As a contrast, Hector Andrews, a former shop steward at Engen, who was part of a series of strikes in the late 1990s said he did not see a strong link between gangs and labour recruitment, except in the case of a firm actually called 'The Mob', which took over a large share of labour contracting from Engen during the 1980s.[14] The owner of this firm was known to several people as the 'Godfather of Wentworth' in this period. According to Lenny, 'he would dictate rates. If you didn't go to work he'd come to your house and kick you and make you go to work'.

Lenny's account becomes more complicated in the 1990s. More recently, labour brokers have formed a consortium to attempt to monopolise local labour arrangements, and to work with representatives of organised labour to control recruitment. In turn, unions have been criticised for leading strikes in the chemical industries sector and then bringing labour contracts to their own recruitment networks. The links between labour brokering and labour activism are undoubtedly complicated. Alan Martin, an ex-labour unionist, has clearly made a shift to becoming a labour broker, and he lives on the more prosperous ridge in Wentworth called 'Treasure Beach', which rises above the oil refinery towards the sea.[15] However, this kind of class mobility seems to have been the lot of only a minority of workers.

Others have been drawn to labour organising through the efforts of the fledgling Chemical, Engineering and Industrial Workers' Union (CEIWU), which has specialised in organising limited-duration contract workers at the Engen oil refinery and beyond since the late 1990s.[16] Each year since 1998, CEIWU has struck during the annual shutdown at Engen, primarily for parity between the entitlements of limited-duration and permanent workers. A manager at Engen, Gary Dent, admitted that as a consequence of unrest, 'we used to do the management job ourselves, but now we've farmed out the management'.[17] The management of contract labour for shutdowns has been outsourced through labour contracting companies, more so since the enactment of the 1995 Labour Relations Act. While Dent perceived the number of people on site as staying the same, the nature of work has changed substantially for limited-duration contract workers. After a major wildcat strike in 2001, Engen has shifted to a model of partial and 'unscheduled' shutdowns, planned at short notice in order to lower the risk of strike activity. CEIWU also claims that the refineries have been illegally blacklisting workers since the rise in strike activity after 2000. Lenny, who is sure he is on a blacklist, says, 'I've lost my car, I've lost my wife, I've lost my house. I find myself in the situation where my lights are being cut and I'm being evicted because I stand for justice for workers.'[18]

To try to screen its labour force through a certification process, Engen had used a local training programme housed in a building that was once a hotbed of black consciousness activism. Since 2002, Engen has combined forces with the Shell and BP joint venture, South African Petroleum Refinery (Sapref) to shift the certification of contract workers to a location further south in Isipingo, which, in the words of Dent, means that 'there are now fewer people who have jobs, but those fewer people will have more regular jobs'.[19] More recently, the refineries have also shifted to getting work completed elsewhere, as far away as Gauteng.

2004 was an important year for CEIWU, as it won an important victory by turning a case of unfair dismissal of 176 workers into a challenge against their limited-duration contracts. CEIWU used a combination of ongoing militancy at the swimming pool grounds across the road from the main gate of the refinery, and patient legal activism with assistance from the Legal Resources Centre. The judgement they received ruled that the workers' contracts could not be considered 'limited-duration', as they made clear reference to benefits, leave, overtime and other conditions of service. As a consequence, the striking workers' jobs could not be terminated either for insubordination or operational requirements without following due procedure. This judgement runs against the landmark *Fry Metals (Pvt) Ltd vs Numsa* ruling from 2002, which upheld the right to dismiss workers on the basis of operational requirements while workers were on strike. Engen could have strengthened this verdict if it had won the case, on the grounds that the strike was jeopardising the contracts necessary for the obligations of work. CEIWU's victory has quite fundamentally altered the terms of labour struggle for industrial artisans in the petrochemical sector, and the judgement is a resource for the struggles of contract workers across South Africa.

CEIWU has since expanded to represent scaffolders, cleaners and the core maintenance workers who have been its mainstay within the Engen refinery. The maintenance workers who spearheaded the militancy in CEIWU have deepened unionisation drives across the refineries of South Durban. What about the community of Wentworth surrounding the refinery and its strikers? Karl Green, a union organiser at CEIWU, admits 'the community has a love-hate relationship with strikers at the refinery. They say "Eey, you're going out on strike. Again! Other people haven't got work. We'll go down and work down there!"'[20] CEIWU has had problems with scab labour from the community, but says it has been able to convince them that, if they went in, they would face the same problems as the strikers in the future. Recently, CEIWU has been approached by call-centre workers from Pinetown, also on limited-duration contracts. Packing workers from a logistics centre in the retail sector have also approached CEIWU. Marginal workers outside the provisions of the Labour Relations Act by virtue of their short-term contracts have found CEIWU to be an effective voice. The union's policy is to try to represent contract workers if they cannot find a bigger union to refer them to.

CEIWU's labour organising is progressing on three fronts. First, CEIWU would like to consolidate its base in the engineering sector in the South Basin, across refineries and subcontracting companies. Second, CEIWU now represents workers who can potentially redefine the accountability of capital under the Labour Relations Act, to fight against contract work itself. This has expanded their focus on the chemical engineering industries to include workers on very short-term contracts in retail and services as well. Often, this expansion of focus has come through the activism of former refinery workers who were blacklisted for militant labour unionism, and who have since shifted to work in call centres and other forms of short-term contract work. Finally, CEIWU has begun to see that it has built capacity in organising contract workers who are constantly in flux. Bigger unions presume that organisers can be sent to a site to unionise workers, while CEIWU talks to people across work and home, individually and in groups, and in informal locations. CEIWU has most recently been searching for ways to impart this activist expertise to larger, more bureaucratised labour union federations.

A small group of unemployed industrial artisans who have participated in the militant unionism of CEIWU have over the past two years also begun experimenting with forming industrial co-operatives. Early on, the attempts to build worker co-ops have had to contend with the fundamentally gendered fissures in the community. Lenny Samuels was part of the initial phase of building worker co-ops, which he saw as an alternative to long-distance migrant work in construction or meat processing. Lenny says he has decided to stay and fight for an alternative future without giving up his knowledge as a skilled industrial worker. While selling his vision of an alternative future to the community, he spoke to me about how he saw co-operatives in a larger framework:[21]

> We are looking into forming little co-operatives. I look at a co-operative as something that will oppose multinational capitalism. This will unite our community and also address our socio-economic needs … Giving a sense of dignity as you are owning something that belongs to you, not to some white guy that's hidden,

that you don't even know … The government has encouraged this by a programme which they call GEAR: outsourcing. I've had my toilet fixed now; it was supposed to be done by the department of housing, but they sent a private contractor to my house now. We'd rather all become contractors or co-ops. We want to contract to the government to address our own needs. Why don't we say we are co-operatives and do this work ourselves instead of allowing this outsourcing to be done. There are no permanent jobs in the municipalities today; there are no permanent jobs in the hospitals today; there are no permanent jobs in schools today because of outsourcing through GEAR and the redistribution of wealth. So we've got our own ideas about the redistribution of wealth. If I belong to a co-op that does metalworking, and my wife belongs to a co-op that does sewing for instance, we could support one another, and then we could have another co-op, which would be a buying co-op, then maybe a gardening co-op. We're looking at reversing things. We'll barter.

This popular political economy is important to engage, both as a form of cultural production and as the organic analysis of someone living through the costs of post-apartheid neo-liberalism. Lenny is clearly wrestling with a notion of democratising production and service work, but he knows that he cannot quite touch the dominant form of 'redistribution of wealth', so he suggests a kind of autonomist solution that he calls 'barter'.[22] Lenny also knew as we spoke that this vision was already compromised by strongly gendered tensions within the community over what co-operatives mean and what community development should be. What he does not question is this undercurrent of gender politics.

The metalworkers' co-operative was formed by a small number of unemployed artisanal labour unionists from CEIWU, including Lenny and the late Skido Joseph.[23] CEIWU's involvement was at the inception, as part of the Wentworth Poverty Alleviation Programme (WEPAP), which was to pitch a community-based co-operative initiative to the poverty alleviation subsection of the local government's economic development section. WEPAP was based on the formation of two initial co-ops, which would then spawn other co-ops engaged in other kinds of work. The men of CEIWU started a metalworkers co-op, and a group of women, unemployed as a result of the massive retrenchments in the clothing industry, were to start a sewing co-op. Conflict soon emerged, because it seemed that the sewing co-op was led by a mother and daughter from outside Wentworth who apparently saw this as an opportunity to harness a dependent contract group to their connections in the clothing industry. Lenny put it categorically: 'They are taking the co-operative and offering big businesses cheap labour; that's exploitation.'

There are several things that can be said about this vision of co-operatives without exploitation, as a grassroots challenge to GEAR and as a proactive way of addressing poverty. What is clear is that at least some of Wentworth's working-class population are aware of the way in which their livelihoods are bound up with macroeconomic policy. What was blatant in practice is that community debates over co-operatives became polarised through the work of gender. Indeed, some of the unemployed women in the sewing co-operative did not conceptualise co-operatives in anything like the materialist idiom used by Lenny Samuels. For instance, in one of the heated meetings between members of the metalworkers' co-op and the sewing co-op, Greta Jones rose up to control the negotiations and said, 'I don't know much about co-operatives, but I know that I'm hungry and my clothes are falling off my body.' Pin-drop silence followed, and she seemed to use a command of Biblical oratory to steer very different factions into engagement.

When I asked her about it later, she smiled and said: 'You saw what happened, didn't you! He was there, the Holy Spirit speaks through me to show us the light.'[24] Greta and her friend Diane call themselves 'intercessors'; they describe their primary work as intervening in oppressive marriages to show women the way to take control of their lives. They speak of the deep fissures that migrant work has driven into their possibilities of having stable families, and they are proud to be single mothers.[25] Stable marriage is not in actuality the norm, even if open divorce or separation is not either. In a context of what several people from Wentworth see as endemic familial conflict, my conjecture is that these and other women find in Pentacostalism a way of maintaining their political engagement in the name of 'community' without compromising their moral stature, knowing full well that their ideal of family has been deeply compromised.

Over the past year, the sewing co-operative has seen a revival after the departure of the 'outsiders' and a turnaround of its membership. Janice Clayton left out of disgust with the politics surrounding the co-operative, and a sense that more middle-class women were beginning to use the workers to bolster their images as champions of women in the community.[26] Three sisters, Leanna, Georgina and Pearl are now running the co-operative. Two of them are unemployed machinists who returned to work once this opportunity presented itself. When I met them, they had just been squeezed on a payment by someone in Wentworth for whom the co-operative was doing subcontract labour. They admitted to me that it was still difficult not to act as a subcontract unit under such circumstances.

The co-operative has rebuilt ties with the metalworkers' co-operative, which has also had a significant turnaround over the past year, principally through the entry of Lorraine Lesley. Lorraine was a significant figure in the major Engen strike in 2000, when she was a key activist in CEIWU. Subsequently, when I last interviewed her in 2002, she had left the chemical engineering sector to work at a call centre. It was her initial work organising workers at the call centre that brought CEIWU into organising very limited-duration service workers there and elsewhere. When she lost her job, Lorraine returned to being an industrial artisan. Importantly, Lorraine flouts the conception that this work is coloured men's work, rather than the trade she is most attached to. When I spent time with the members of the co-op in early 2004, they had just decided to draft a business plan and to pose as a small business, since it seemed they were not getting contracts because co-operatives cannot be held liable in the same ways that businesses can. It is ironic that while they were once critics of the sewing co-op's role as a subcontract unit, the metalworkers' co-op might become a small business. This is not to say that its members are not idealistic or committed to co-operatives, but that larger forces call the shots.[27]

Activism and the urban environment

In addition to the work of labour organisers and of the pioneers of co-operativisation, several people are involved in activity aimed at the transformation of the terms of work, life, environment, family and community. Although I began with the assertion that Wentworth has become more strongly 'ghetto', its residents refuse to move if they can help it because Wentworth is a vital neighbourhood with an unmistakeable vibe. Even in the flats of Woodville Road, which housing activist, Jane Glover, calls 'the ghetto within the ghetto', locals refuse to forget how cool it can be to sit at the front-door step and see the whole world go by. Many residents have used their time and energy to engage in a variety of political, civic and social groups, on many fronts in the fight for social and environmental justice. Today's struggles coalesce around a range of concerns, including limited-duration contract labour, which I have discussed, air pollution primarily from the refineries and the Mondi paper mill, sub-standard housing, and care for those living with HIV/AIDS.

Environmentalism would seem to have been the most efficacious form of struggle to work across race and class in shared mobilisation over the commons in South Durban. The origin of environmental organisation in South Durban is often attributed to the interest with which Nelson Mandela listened to the concerns of protestors outside the Engen refinery in 1995, when he stopped to talk to them about their concerns. After some fits and starts, the South Durban Community Environmental Alliance (SDCEA) was formally established in early 1997 as an alliance of organisations committed to linking environmental justice struggles across the racial boundaries in Wentworth, Merebank, Bluff, Isipingo, Clairwood and Umlazi, in order to respond systematically to pollution in the South Durban industrial basin. SDCEA is located in Wentworth, but it has tried to maintain a sense that it represents all these communities.[28] Joe Haynes argues that SDCEA had effectively challenged the Merebank Ratepayers' Association's hegemony over the environmental debate in South Durban. The element of SDCEA representing Wentworth is the Wentworth Development Forum (WDF), a merger of three civics in 1994 with unofficial sanction from the ANC. In its early stages, SDCEA received considerable support from the activism in the WDF as it built its reputation as a regional alliance of civics. Over time, Haynes shifted the focus of his activism outward from the local, to later help found South Africa's key environmental justice organisation, groundWork, in 1999.[29] The mandate of groundWork has been to address three major concerns: oil and air pollution with regard to chemical industries, health-care waste and incineration, and hazardous waste.

A persisting strength of the SDCEA/WDF/groundWork alliance, from the perspective of Wentworth, is that it can wear many hats – militant and professionalised, grassroots and networked, confrontational and negotiable – and it can work across multiple scales: local, city, provincial, national and international. Joe Haynes and Mike Winters are perceived as very different types of activists: Haynes as more negotiable and Winters as a representative of the 'ultra-left'. They speak of this perception openly, as if it is part of their tactical arsenal. Local and national levels of government have been their key points of pressure against the corporate–state alliance, particularly with the weakening of provincial government since the turn to decentralisation.[30]

Another key strength for the environmental movement is that the scientific knowledge on pollution in South Durban is now clearer than ever. The important research at Settlers School, Merebank, conducted by a team of public health scholars from the University of Michigan and the University of KwaZulu-Natal, shows a concentration of 'risk for air pollutant related health effect due to … geographical location amidst two major petroleum refineries, a paper mill and a wastewater treatment plant' (Robins et al. 2002: 3). What is striking in the wake of clear evidence that the residents of South Durban live in a toxic soup is that the lines of 'friend' and 'enemy' are by no means clearly drawn. Many residents appeal to a pragmatism, arguing that the only way to make the giants in their backyards pay for pollution is to extract from their 'corporate social responsibility' (CSR) programmes. SDCEA and groundWork are categorically against CSR as mere 'greenwashing'. The groundWork campaign on corporate accountability emerged out of this. Rather than CSR, groundWork's position is that the underlying problem is to make capital accountable across multiple spaces and scales. To this end, groundWork facilitates links with communities across South Africa, but it continues to use SDCEA as an index of the community-based environmental justice struggle. In other words, groundWork tries to use the history of environmental activism centred on Wentworth to create similar capacity elsewhere in South Africa where similar 'fence-line' issues – that is to say, issues specific to living on the boundary of polluting industry – can be politicised.

What must be said is that SDCEA does not command a steady mass base in South Durban, or even in Wentworth, through the WDF. As a consequence, SDCEA/WDF's work within Wentworth has been multifaceted. There are three important points to be noted about SDCEA/WDF's strategy. First, while both organisations are small and their presence in daily organising is weak, they can pull in a crowd for spectacular events by drawing on a variety of other community organisations, even if they come to dissent with SDCEA/WDF's tactics or point of view. Second, SDCEA/groundWork have tried to pursue a technocratic approach by claiming to empower residents in community monitoring of pollution levels, and community collection of research data to demonstrate ongoing ill-health in the shadow of oil refineries. While this technocratic approach has not created an army of resident scientists monitoring pollution levels, it has won SDCEA important allies in international environmental justice research. Third, SDCEA has also taken recourse to legal activism, by pursuing Engen, Sapref and Mondi in the courts. This constitutional route, alongside periodic mass action, has been quite fruitful, particularly in the recent victory against Mondi's plan to build an incinerator/combustor.

The struggle around Mondi's expansion has been very important for its multiple dimensions of activism. The expansion centred on what Mondi calls a combustor, and which SDCEA/groundWork identify as an incinerator. Mondi first made the proposal in 1998 to put in a new 'fluidised boiler', but the context is important. By November 1998, they found they had to extend their ash landfill site in neighbouring Merebank, but SDCEA opposed this and it was stopped. They then dumped the ash in the township of Umlazi, seven kilometres away, and there they were effective. SDCEA had managed to close down the Umlazi dump for toxic waste in February 1997, an important moment at which the residents of this African township were mobilised into the regional environmental justice movement. As Joe Haynes laments, 'every environmental justice struggle is bittersweet mate, you win here and you lose there', and Umlazi was once more a dumping ground. However, Mondi knew they were going to run out of space in Umlazi, and they did not want to transport their waste all the way to Shongweni, 35 kilometres away, so they planned to re-burn it in a boiler on the plant, which is effectively what an incinerator does.[31]

Three points emerged through the case. First, definitions of the expansion were key to the case. Was this a combustor to produce steam and power, as claimed by Mondi, or an incinerator to burn waste, as argued by SDCEA? Definitions are key to organising, as 'anti-incineration' has been a key moral claim made by community residents. Second, the legal activists of the Legal Resources Centre caught the respondents on a technicality that exposed the development of informal ties between capital and the state. The company that was contracted for the expansion claimed to have obtained exemptions from conducting an environmental impact assessment and preparing a report, while no such exemptions had been granted through formal procedures. Third, the possibility of a negotiated settlement exposed contradictions between legal counsel and community activists, as the latter would not give up their militancy even for important concessions from the industrial giants. Ultimately, 'anti-incineration' works both as an emotive organising tool at the local level, and it brings international allies in the global 'anti-incineration' movement. These are two key constituencies for SDCEA/groundWork.

Joe Haynes concedes that SDCEA must decide its battles carefully and concentrate energies on key cases. Given that SDCEA does not have a mass base but that it can bring together a strong crowd around issues like incineration and relocation, it has to deepen the links between campaigning and episodic militancy. One of the challenges will be to draw a tighter link between organised labour, to bring together questions of environmental pollution and jobless growth in the expansion of the South Durban industrial basin. Despite the fissures within the SDCEA/WDF/groundWork alliance, all of them supported the militant labour union CEIWU during the important 2003 strike. As Haynes warns, 'the environmental movement is just beginning to challenge the economic system'.[32]

However, as I have already suggested, not everyone in Wentworth sees the environmental movement as all that central. Jane Glover, housing activist, says, 'I'm not worried about the environment; all I want is my piece of oxygen!' It would be a mistake to see this as just a competition between ideologies rather than one window into the profound tensions between various domains of activism in Wentworth. Jane represents a much more contingent grouping of women who have found it necessary to organise themselves rather than accept being represented by the WDF.

Jane's primary battle has been to take over a set of flats left vacant by the provincial housing department. The gist of this struggle is that in early 2003, a group of women from Woodville Road formed a small organisation to stage a putsch against the leadership of the WDF. The WDF's position was that they were negotiating with the housing department to employ local contractors for construction work. The women of Woodville Road decided they could wait no longer. One night, they held hands and prayed, and they say that the Holy Spirit descended upon them and enabled them to act. By the next morning, they had taken over the new housing stock and could not be dislodged. The WDF then called a meeting with key external activists, and the women of Woodville Road were chastised for defying the leadership. Jane Glover's impromptu response, after a careful apology to the WDF leadership and the community, demonstrates the continuing centrality of gender in the everyday work of organising:[33]

> I woke up one morning and I said to myself, 'What is it that depresses me so much about living here?' And when I looked around, I looked at the flat and I said 'My God! It looks like the walls are closing in on me!' So … that is what our committee was all about. If we failed somewhere along the way, we are so sorry. You know, when we needed some men around, there were no men available. So we took it upon ourselves to get in there and take on the task.

In her public comments, Jane describes the difficulties of being intimate, of performing 'family obligations', in overcrowded flats. The appeal to both Malthus and family values is bound to win points, but she also comes back with a stinging critique against the political inactivity of men in securing basic means of survival. In private, Jane describes to me how a friend of hers, while buying used clothing, found that her ex-husband had been selling her things off for a while. There are two intertwined dynamics at work in the activism described by Jane Glover. On the one hand, she and her comrades claim a religious experience moved them to act in their interests, against the commands of their male leadership. On the other hand, her ideology is conservative in conceptions of family and gender/sexuality that, in practice, have been transformed dramatically.

Conclusion

Within the profound subcontracting of the South African state and society in the new dispensation, as both capital and state have turned to forms of contracting to circumvent labour law and organised labour, we are only just beginning to understand the raced and gendered ways in which communities pick up the pieces. Diane Elson (1991) argues that structural adjustment programmes (SAPs) have relied on 'unlimited supplies of female labour', a play on Arthur Lewis' classic argument on economic development with unlimited supplies of agricultural labour. Elson's argument is that cutbacks on welfare and social security through SAPs require women in households to absorb much of the shock, through increased unpaid care-work. This 'Second Wave' feminism carries the assumption of global sisterhood strongly critiqued by black and Third World feminists for not addressing the actual diversity of gender relations. The task for post-Second

Wave feminism has been to see how sexuality and gender are understood differentially, and whether and how, in Elson's problematic, 'feminised' labours do in fact pick up the pieces in the context of structural adjustment. What Wentworth demonstrates is that one cannot assume that men and women do so passively.

Wentworth's diverse struggles, which I have only touched on through the labour and environmental questions, continue into the present and do not converge in any clear way. A large number of people continue to participate in the everyday labours of organising across a range of concerns that come from living in a community surrounding a refinery. Each form of activism confronts an aspect of the elements that make Wentworth, for the time being, a type of ghetto, characterised by particular forms of stigma, constraint, spatial confinement and institutional containment. The rapid rise of Pentacostalism in Wentworth is significant for what people do with it, and what is rare for Pentacostalism, given its conservatism, is for it to become a tool for women-led militancy. It remains to be understood precisely how Pentacostalism allows some people to claim their place as moral beings while also acting as agents of change outside the church and labour market, as heirs to the fruit of this world: to its housing, its basic services, its jobs, its medicine and its clean air.

Notes

1 I am grateful to the Michigan Society of Fellows and the University of Michigan for funding to begin this research in 2002, and to the School of Development Studies (SODS), at the University of KwaZulu-Natal, for support ever since. Versions of this paper were presented to the SODS 50th Anniversary Conference, Durban, 21–22 October 2004; the Anthropology of Work Conference, San Francisco, 20 November 2004; and the African Studies Workshop at the University of Chicago, 23 November 2004. I am grateful to several people from these audiences for comments. With the usual disclaimers, in addition to my informants in the paper, I would like particularly to thank John Comaroff, Ashwin Desai, Bernard Dubbeld, Grant Farred, Gillian Hart, Jeremy Jones, Vishnu Padayachee, Raj Patel, Richard Pithouse and Stephen Sparks.

2 I do not systematically use quotes to indicate that 'race' is a fiction, but follow convention in capitalising Indian and not coloured, without implying that one and not the other is a proper noun. Census data in Chari (2005) shows that Indians and coloureds continue to numerically dominate these townships, but that Wentworth coloureds are a much more significant share of the coloured population of eThekwini city and KZN province, than are Merebank's Indians to the city or provincial Indian population. Wentworth has a distinctive character as such a significant regional concentration of coloureds, while Merebank is far overshadowed by townships like Chatsworth and Phoenix.

3 Individual monthly incomes for both communities are in the range of R1 600–R3 200, though Austerville (a neighbourhood in Wentworth) has a substantially larger population of individuals with no income. Household monthly incomes are stronger for Merebank. A comparison of household annual incomes with the neighbouring, formerly African townships of Lamontville and the much larger Umlazi, as well as formerly white Musgrave and Kloof, shows that

Wentworth and Merebank sit similarly between former African and white areas in income terms, with Merebank appearing slightly more advantaged but not tremendously so. What also stands out is the much higher number of households with no income in African areas in contrast to others. (See Chari 2005)

4 Wacquant (2004) derives a relational conception of the ghetto as a 'social-organisational device' directed, in his terms, at producing and forcibly confining a dispossessed and dishonoured group. He argues that the ghetto ought to be seen in analogy with other forms of collective violence like the reservation, the refugee camp and the prison. Each form links economic exploitation and social ostracism differently. A coloured ghetto that breathes petrochemical fumes, across town from the gentility of the leafy, and largely English, Berea, but not as far out of the city as other black townships, carries specific social and spatial contradictions. Wacquant suggests that ghetto residents create strong internal affinities to make the experience of stigma bittersweet – a sentiment captured perfectly in Roy DeCarava and Langston Hughes' (1955) photo-poetic portrait of Harlem, *The sweet flypaper of life*. Unlike the ethnic neighbourhood, which is what Merebank has become, the ghetto is less a springboard to assimilation in society than a walled-in 'dissimilation', even if Wentworth's ghettoisation draws on wider archetypes from Pentacostalism or African American cultural production.

5 Histories of space presume what Henri Lefebvre (1974) calls a properly social theory of space that refuses the dichotomy of physical/container space and mental/cognitive space, to apprehend how spaces are fought for, made, devalued, destroyed, restored, irrevocably lost or nostalgically remembered. Marais (1998) is an exemplary Gramscian analysis of the challenges of hegemony and counter-hegemony.

6 Farred's (2004) prescient critique of Sanders (2002) suggests the importance of careful research on dialectics of resistance and complicity, in relation to changing forms of state-sanctioned cultures of racism, to include both 'black anti-black' racism as well as moments of deeper critique of black subjection. 'The black intellectual's work is never done,' as Farred puts it, because neither complicity nor resistance is guaranteed.

7 Michael Burawoy's (2003) brilliant, contrapuntal reading of Karl Polanyi and Antonio Gramsci is driven by the question of how counter-hegemony is forged, but he forgets his ethnographic dictum by neglecting cultural production for the presumption that people act from necessity in the wake of commodification. While new forms of 'active society' may indeed be produced to defend life against the ravages of capitalism, Burawoy's question (akin to the question he once asked of workers at the point of production: Why do workers work?) ought to be: Why do activists act?

8 See Watts (2004) on various mobilisations of 'community' in the wake of imperial oil politics and the crisis of secular nationalist development in Nigeria. Jensen (2004) makes a parallel argument on the polyvalence of 'community' on the Cape Flats.

9 The most broadly appreciated work remains Ashwin Desai's (2002, 2003), where much is said between the lines. Notable pieces are Lumsden & Loftus (2003), Greenstein (2003), Barchesi (2004), Hart (2002, 2005), Mbali's (2004) fascinating research on the Treatment Action Campaign, and Pithouse (2004), for a challenging account of the importance of internal critique in the oppositional movements of the present. By 'cultural production', I mean Paul Willis'

(1981) sense of the broadest type of creative or meaning-making activity that we engage in as humans, some of which becomes part of the 'cultural reproduction' necessary for the maintenance of dominant ideologies, which then maintain capitalist hegemony, but which also contain radical lines of flight necessary for the making of Burawoy's 'active society'.

10 For this data, please see Chari (2005).

11 My method thus far has primarily been through life histories collected in four periods of residence in Durban, during which I have interviewed past and present activists, workers and residents in, or from, Wentworth and Merebank. This is a preliminary report, focusing primarily on Wentworth. All names of living people have been changed to protect people and their intellectual positions.

12 Lenny Samuels, 26 November 2002.

13 Engen was initially the Standard Vacuum Oil Company of New Jersey at its inception in 1954. The company subsequently changed its name to Mobil, which suddenly pulled out of South Africa in 1989 and was bought over by a South African mining giant, Gencor. It has since become Engen, which was listed on the Johannesburg Securities Exchange and bought out in two major shares by the Malaysian state oil corporation, Petronas.

14 Hector Andrews, 13 July 2004.

15 Alan Martin, 26 November 2002.

16 I realise I am not attending to the history of the Boiler Makers' Union here, as I do not have enough source material on its emergence and relationship to CEIWU.

17 Gary Dent, 20 December 2002.

18 Lenny Samuels, 26 November 2002.

19 Gary Dent, 20 December 2002.

20 Karl Green, 21 April 2004.

21 Lenny Samuels, 26 November 2002.

22 See Gidwani & Chari (2004) on the limits of this kind of autonomism.

23 Skido Joseph passed away tragically in late 2003, after I had the opportunity to get to know him. Although Skido was quite open about his faults and prejudices, he was articulate about his feeling of post-revolutionary betrayal and commitment to continue the fight for social justice in Wentworth, and he put in hours of unpaid labour to this end.

24 Greta Jones, 21 November 2002.

25 It is important to note that in today's Wentworth, there are almost the same number of female as male household heads; male household heads are significantly more likely to be employed (female – 35 per cent, male – 53 per cent), and only slightly more likely to be unemployed (female – 10 per cent, male – 14 per cent). Census data on 'marital status' show that 25 per cent of the population of Austerville is married; 60 per cent have never married; 4 per cent live together 'like married partners', and 5 per cent are separated or divorced (see appendix to Chari 2005).

26 Janice Clayton, 14 September 2004.

27 Lorraine Lesley, 13 September 2004.

28 Joe Haynes, one of its founders, comments on the difficulties in getting the Umlazi Reconstruction and Development Forum onto the environmental justice platform, although he had witnessed commitment to the issues in Umlazi through the difficult period of the ANC/IFP tensions in 1995. Personal communication, 31 October 2004.

29 Joe Haynes, personal communication, 31 October 2004.

30 As an indication of this weakness, while the power to decline environmental impact assessments (EIAs) lies at the provincial level, only one of the 64 EIAs concerning South Durban between January 2002 and March 2003 was declined.

31 Andries Plaatje, 20 April 2004; Joe Haynes, 22 April 2004.

32 Joe Haynes, 22 April 2004.

33 Jane Glover, meeting in Wentworth on the Woodville/Wolraad/Tayne Residents Committee, undated tape from early 2003. Interview with Jane Glover, Wentworth, 23 August 2003.

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23 Rural development in South Africa: tensions between democracy and traditional authority

Lungisile Ntsebeza

Introduction

The post-1994 South African state has targeted local government as playing a pivotal role in development in the whole of South Africa, including the rural areas in the former bantustans. Historically, particularly during the apartheid period, these areas were under the control of Tribal Authorities dominated by chiefs and headmen. These institutions, which were unaccountable and undemocratic, were imposed on unwilling rural residents. In areas such as Pondoland (Mbeki 1984), Sekhukhuneland (Delius 1996) and Xhalanga (Ntsebeza 2002), the imposition of these institutions led to often bloody conflicts between apartheid state supporters and those in resistance. Since 1994, there have been various attempts to democratise the rural development process and governance. In this regard, local government is central.

Post-1994 local government is dubbed 'developmental'. Local government is one of the three spheres of government, the others being national and provincial. In terms of Section 151 of the Constitution, it 'consists of municipalities, which must be established for the whole of the territory of the Republic'. This would include rural areas under the jurisdiction of Tribal Authorities, where municipalities next existed. In its 'objects of local government', the Constitution (Section 152) entrenches the democratic and developmental aspects of local government and insists that local government must, *inter alia*, 'provide democratic and accountable government for local communities; … ensure the provision of services in communities in a sustainable manner; … promote social and economic development' and, crucially, 'encourage the involvement of communities and community organizations in the matters of local government'. Section 153(a) of the Constitution further prescribes that a municipality 'must structure and manage its administration and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community'.

This chapter deals with the vexed issue of rural development in the former bantustans since the advent of democracy in 1994. More specifically, the chapter focuses on the role of traditional authorities (chiefs of various ranks) in rural development in this period. To achieve this, I first consider the manner in which rural development has been conceptualised since 1994. I then consider how policies and laws on rural development have been implemented. Against this background, the role of traditional authorities in rural development is taken into account. The role of traditional authorities in rural development is considered against the backdrop of the constitutional requirement for democratic, community participation in development and governance broadly.

Rural dynamics in post-1994 South Africa

Conditions on the ground after 1994 in many rural areas under traditional authorities have often been characterised by tensions and conflicts between elected councillors and the incumbents of apartheid-created Tribal Authorities (chiefs and headmen). These tensions, as will be demonstrated, can be attributed to the difficulty in reconciling representative democracy, based on elected leaders, and traditional authority, which is hereditary. Both the institutions of traditional leadership and representative democracy are entrenched in the Constitution. While the Constitution recognises the institution of traditional leaders, there was no clarity about the role of traditional authorities. It is this lack of clarity that is at the heart of the confusion and tensions on the ground. These tensions were evident even before the advent of democracy in 1994. At the time, the tensions were between traditional authorities and groups in civil society, especially those organised under the South African National Civic Organisation (Sanco). At the centre of these struggles was control over land, in particular, land allocation. In cases such as Xhalanga in the Eastern Cape, residents' associations took over the land allocation functions from traditional authorities (Ntsebeza 2002; see Manona 1997 for the Ciskei). By 1994, there was a breakdown in land administration.

After the 1995/96 local government elections, these tensions manifested themselves as between elected rural councillors and Sanco, on the one hand, and traditional authorities, on the other. Elected councillors were introduced following the local government elections in 1995 and 1996 as part of the attempt to extend democracy to rural areas. As already noted, in terms of the Constitution, municipalities were to be introduced in all parts of the country, including areas falling under the jurisdiction of traditional authorities. This meant that new structures based on elected councillors were introduced in these areas, too. The majority of rural councillors were drawn from the ranks of Sanco activists. Some of the functions of these democratically elected structures, such as the promotion of state-led development in rural areas, used to be performed by traditional authorities. In the absence of clear-cut functions for traditional authorities, taking some functions from them was surely going to be a recipe for chaos and confusion.

Above all, it was confusion over the land allocation function that most of the tension revolved around. This was particularly true in the case where civic structures and traditional authorities had more or less equal support. There are two levels at which this dilemma could be understood and explained: the law and practice. Before the promulgation of the Communal Land Rights Act, the laws governing the allocation of land in the rural areas of the former bantustans had not been repealed. In this regard, the South African Constitution is clear that existing laws will remain in force until such time as they have been replaced by appropriate legislation. In terms of the then existing laws, an application for land would only acquire legal recognition if it bore the stamp of the relevant Tribal Authority and was signed by the appropriate signatories.

Reality on the ground, though, was different. Many rural residents, rural councillors and, indeed, South Africans assumed that the newly elected councillors would take over the vital function of land allocation. After all, as the Xhalanga example shows, control over land was the cardinal issue in rural struggles in the early-to-mid 1990s. When the integrated development plan (IDP) for Xhalanga was developed in 1999, the issue of who would be responsible for land allocation cropped up.[1] Although interviews and the minutes of meetings suggest that, on the whole, there were no tensions between elected rural councillors and the representative of traditional authorities, there were animated discussions when it came to the question of land administration. It appears that the representative of traditional authorities pointed out that Tribal Authorities were still responsible for land administration. This claim was strongly challenged by rural councillors. The explanation of the representative of traditional authorities was simple and highlighted the lack of clarity regarding land administration in the countryside: 'Nothing is clear. Government has indicated that land allocation will be the function of the TRCs [transitional rural councils]. However, at the moment this has not happened. Most areas still use the old method.'[2] The IDP committee never resolved this issue. One of the committee members pointed out that one of the reasons why the matter was not discussed further was that 'it was seen as divisive'.[3] Of course, the committee could not resolve the issue, given, as will be seen below, the government's ambivalence regarding the role of traditional authorities.

However, residents and rural councillors, in particular, got a rude shock when it turned out that the old apartheid laws were still in place. Above all, government officials still used, with minor adjustments, the apartheid procedure and did not recognise elected councillors as having the powers to allocate land. The extent of this confusion, the dilemma of rural residents and the role of the officials of government, are best captured in the following response by a resident who was sympathetic to Sanco on the question of who was responsible for land allocation in areas falling under the jurisdiction of traditional authorities:

> This is the reason why we still use chiefs. Rural councillors run in circles. This makes us a laughing stock and divides us. People will tell you: 'Go to your rural councillor, you won't succeed.' You end up going to the chief, even if you did not want to. At the magistrate's offices they ask you about the stamp [of the Tribal Authority]. If you do not have the stamp they will say: 'Don't waste our time.' The land issue is complex. There is a struggle between TrepCs [transitional representative councils which consist of elected rural councillors] and the headman. The former brought electricity and telephones, but land is in the hands of chiefs. You are forced to be flexible (*kufuneka ubemvoco*) otherwise you won't get your benefits. When we wanted land for pre-schools we were told to go to the headman, something that made the headman boastful. Sometimes you may have spoken badly about the headman, and you end up bowing down to it, as it is often

> necessary that you get what you want. With chiefs and headmen it takes a few days to get what you want, whereas with rural councillors it takes months, and even then you end up not succeeding.[4]

This reflects experiences in Sifonondile in Xhalanga, where inhabitants were divided between supporters of the headman, on the one hand, and civic structures and rural councillors, on the other. In this area, civic structures under the auspices of Sanco demarcated land and allocated plots to its supporters. Those who were allocated plots, however, were not granted permits to occupy (PTOs), as the government officials did not recognise their process. It is partly this dilemma that the informant was referring to.

In the case of the Tshezi community in Mqanduli in the Eastern Cape, the issue of lack of clarity led to an abandonment of a rural development project. The Tshezi area, situated near Coffee Bay and Hole-in-the-Wall in the Transkei region of the Eastern Cape, was one of four economic development nodes that were identified by the Department of Trade and Industry-led Spatial Development Initiative (SDI). One of the requirements of the SDI for investment in 'communal' areas such as the Tshezi area was the need to clarify the question of who owns land and who is responsible for the provision of municipal services in these areas. In the end, this project was abandoned largely because traditional authorities in the Eastern Cape were not happy with the establishment of an alternative, democratic landholding entity, the Communal Property Association. They influenced the chief in the Tshezi area against the project.[5] As will be seen, traditional authorities want to be the primary structure in rural areas, in pretty much the same way as during the apartheid period, when Tribal Authorities had the monopoly of power.

In order to understand these tensions and how they have a bearing on rural development, I will consider the development of policies and legislation in the new democracy.

Rural development in South Africa's democracy: policy analysis

It is important to note that the early conceptualisation of post-1994 local government had a strong urban focus. For example, the 1993 Local Government Transition Act was silent on the form local government would take in rural areas. Given the centrality of local government in the promotion of development as outlined earlier, the implication of this omission was that the key instrument or vehicle for development in rural areas was missing. The omission also cast doubt on the seriousness of the 1994 White Paper on Reconstruction and Development in its identification of local government as the key vehicle for rural development.

However, the issue of the form of local government in rural areas could not be ignored in the run-up to the first democratic local government elections in 1995/96. Local government in post-1994 South Africa went through two phases: a transition phase between 1995 and 2000, followed by the establishment of fully fledged municipalities in

December 2000. Amendments to the 1993 Local Government Transition Act in June 1995 rectified the silence about the form local government would take in rural areas. These amendments focused specifically on local government in rural areas and provided for a 'district council' model for rural areas, establishing a two-level structure, consisting of a district council at a sub-regional level, and a range of possible structures at local (primary) level. In rural areas, the primary structures, established at magisterial-district level would either be transitional rural councils (TRCs), or transitional representative councils (TrepCs). These structures would be made up of elected representatives. The main difference between TRCs and TrepCs was that the former were accorded the powers of a fully fledged local authority, while TrepCs were seen as fulfilling representative and brokering functions, and as bodies that would eventually evolve into effective and democratic local authorities.

Unlike in the urban areas, where the electoral system was based on a combination of constituencies and proportional representation, the system that was adopted for rural areas was proportional representation. This meant that rural people voted only for political parties, rather than political parties and independent candidates. It is worth remarking that this form of election has grave implications for the downward accountability of officials to the constituency. In the proportional representation system, officials are often prone to be primarily accountable to their political parties or the leadership thereof, rather than their constituency, the voters.

At the same time as local government was being transformed, other policy initiatives were put in place to address rural development. Following the introduction of the White Paper on Reconstruction and Development in 1994, a National Rural Development Strategy (NRDS) was unveiled in 1995. This was an attempt to integrate and align the objectives of the Reconstruction and Development Programme (RDP) with those of developmental local government. Indeed, the RDP had also identified with the sentiment that citizens should actively participate in development initiatives in their areas (ANC 1994). However, as Davids (2003) argues, the RDP objectives did not adequately address the rural economy and ignored issues of local governance, including traditional leadership. In 1997, a Rural Development Framework (RDF) was introduced. It sought to address some of the weaknesses of the NRDS, in particular those underlying the role of rural local government in development and the alleviation of poverty in South Africa. This process was led by the office of the RDP. With the closure of the RDP office, though, the RDF was left in limbo.

By 1999, almost five years into South Africa's democracy, there was no clear-cut policy that would guide development planning in rural areas under Tribal Authorities. On the ground very little had happened. Land-based and rural-development NGOs and activists, otherwise supportive of the African National Congress (ANC)-led government, were also disgruntled with the slow process in the improvement of the quality of lives of rural people. In the run-up to the 1999 elections, these NGOs and activists came together under the Rural Development Initiative (RDI) primarily to influence the election manifesto of the ANC ahead of the elections.

In announcing plans under his presidency, the newly elected President Thabo Mbeki made known, soon after the 1999 election, his government's intention to put in place another rural development programme. Whether this was in response to the RDI, as Davids (2003) seems to suggest, or not, is not clear. What is clear is that, in 2000, the Integrated Sustainable Rural Development Strategy (ISRDS) was unfolded. This document was formulated in the Office of the Deputy President.

As with previous documents, the ISRDS emphasised the role of local government in promoting rural development. The document makes it clear that 'successful rural development must be implemented in a participatory and decentralized fashion in order to respond to articulated priorities and observed opportunities at the local level' (Office of the Deputy President 2000: iv). It goes on to state:

> The reform of municipal government places organs of local government in a central role in integrating programmes to achieve synergistic rural development. Many will need assistance and guidance to develop capacity, but their role and responsibilities are clearly established. They are required to clearly identify local development needs and opportunities and to plan to respond to these. They must align their budgets to achieve their planned objectives. (Office of the Deputy President 2000: iv)

It is critical to bear the broader context of local government in mind when reading the above. The announcement of this programme took place at a time when new municipal boundaries were finalised in 2000. A model amalgamating several urban and rural municipalities was adopted. This resulted in the creation of fewer and geographically larger municipalities. Between 1995 and 2000, the number of municipalities was drastically reduced from 834 to 284. The number of councillors was also reduced, meaning that fewer councillors would be responsible for larger municipalities. The electoral system combining constituency and proportional representation that applied to urban areas was extended to all municipalities with wards.

In other words, we have here a situation where newly formed municipalities were expected to implement what the ISRDS itself admitted was a programme that was 'idealistic in its vision' though 'practical in its focus on mechanisms of implementation'. While the programme sounded optimistic about the viability of rural development in geographically larger municipalities with fewer councillors, there was a sense of realisation that delivery would not be achieved in the short term. According to the document, the 'approach outlined in the strategy … looks toward a horizon of 2010' (Office of the Deputy President 2000: iv).

Central to developmental local government is the notion of integrated development planning. Integrated development planning requires municipalities to co-ordinate all development activities within their area of jurisdiction. As indicated, it seeks not only to democratise local government by introducing the notion of elected representatives even in rural areas, but also to transform local governance with a new focus on improving the standard of living and quality of life of previously disadvantaged sectors of the community. In addition, developmental local government requires that citizens should actively participate in development initiatives in their areas. All municipalities were initially required to produce IDPs and land development objectives (LDOs). However, this process was streamlined with the adoption of the 1998 White Paper on Local Government recommendation that the LDOs be part of the IDPs.

The role of traditional authorities in South Africa's rural development policy

It seems quite clear from the above that post-1994 policy on rural development does not provide for a prominent role for traditional authorities. As has been shown in this chapter, the leading actor in rural development is developmental local government. In this sphere, the role of traditional authorities is far from being clear. When the Local Government Transition Act was amended in 1995, it empowered a Member of the Executive Council in the various provinces to identify 'interest groups'. In terms of the amendment, no interest group could have more than ten per cent of the seats. Traditional authorities were identified as an interest group, along with women and farm workers.

The ISRDS also does not give traditional authorities a special role. They are classified as some of the many 'stakeholders' identified in the document. On the question of 'human resource development and capacity building', the ISRDS does not even mention traditional authorities, let alone privilege them. To quote from the document:

> Critical to … participation by stakeholders will be capacity building at local government and community levels. Programmes that will facilitate the development of community-based organizations and non-government organizations should be encouraged. Existing CBOs and NGOs can also play meaningful roles in assisting with capacity-building efforts. (Office of the Deputy President 2000: 32)

Taken against the background of the monopoly and the concentration of power which Tribal Authorities enjoyed under the apartheid system, it is not surprising that the moves by the ANC-led government towards democratising rural local governance drew fierce criticism and resistance from traditional authorities, including those who were members of the Congress of Traditional Leaders of South Africa (Contralesa), an organisation that is historically aligned to the ANC tradition. In the run-up to the first democratic local government elections in South Africa in 1995/96, the Inkatha Freedom Party (IFP) and Contralesa began to work together. This was despite their differences in the pre-1994 period.[6] Traditional authorities in both Contralesa and the IFP took the ANC-led government to the Constitutional Court, challenging the government over the issue of establishing municipalities throughout the country, including rural areas under their jurisdiction. The president of Contralesa, Chief Patekile Holomisa, who is also an ANC Member of Parliament, took an increasingly militant stand towards the ANC, even calling for a boycott of the first democratic local government elections. In other words, the post-1994 government policies and laws were closing the ideological gap between members of Contralesa and those traditional authorities who were sympathetic to the IFP (Ntsebeza 2002).

While the initial collaboration was around local government, it is quite clear that the main issue that brings traditional authorities together is their opposition to the notion of introducing new democratic structures. They would be happy to be the only primary structure in rural areas, and insist on preserving the concentration of functions they enjoyed under apartheid, especially land administration. Not only are they opposed to the idea of the separation of powers, they are also opposed to any attempt to introduce alternative structures that would compete with them. For example, in the case of local government, traditional authorities reject the introduction of municipalities in 'their' areas. They argue that they should play a central role in rural development and, by implication, they reject the democratic principles upon which post-1994 developmental local government is based. Traditional authorities adopted a similar stand with regard to land tenure reform. While they agree with the government that land in the rural areas of the former bantustans should not be the property of the state, they reject the notion that where land is held on a group basis, the administration thereof should be transferred to democratically constituted and accountable structures. Traditional authorities strongly argue that the land should be transferred to Tribal Authorities that, as has been shown, are undemocratic and unaccountable. Transferring land to Tribal Authorities would legally exclude ordinary rural residents from vital decision-making processes, including land allocation.

Rural development in practice: the bottlenecks

Preliminary research and media accounts of the various imbizos that President Mbeki and other high-ranking ANC leaders have held with various South Africans, including rural people, suggest that despite the efforts that have been made by the ANC-led government since 1994, the struggle against poverty has yet to be won. This is not only evidenced by the alarming rate of unemployment in South Africa, but also by the fact that in many areas, particularly in the countryside, South African citizens do not have easy access to basic services such as water, improved infrastructure such as good roads, and land. In the case of Xhalanga, in the newly created Sakhisizwe Municipality, these services have barely been addressed in the ten-year period since South Africa's democracy.[7] My contention is that provision of these basic, essential services is a necessary condition for a successful rural development exercise. This then raises the question as to why very little has been achieved, especially given the fact that we seem to have some of the best policies and laws that are supposed to guide this process.

Given the dynamics in rural areas in the former bantustans, as highlighted at the beginning of this chapter, one would be tempted to come to the conclusion that the explanation lies in the lack of clarity as to the precise role of traditional authorities in rural local governance and, therefore, rural development. While this conclusion is justifiable, and I will address this issue below, I would argue that it is only a partial explanation. There are other explanations. The fact that lack of progress in improving the lives of rural people is found even in areas such as Xhalanga, where chiefs have historically been marginalised, is a good example. Before dealing with the issue of traditional authorities in rural development, I will briefly highlight the other obstacles to rural development, which provide an important context for dealing with the role of traditional authorities in rural development.

Problems of implementation

A key problem facing rural development is that the main driver of this process, local government, is often very weak and poorly equipped to deal with the challenges of a developmental local government. Most of the criticisms against rural councillors point to their weakness and incapacity. This is a problem that almost all the policy documents, including the ISRDS, acknowledge. In the first five years of local government in South Africa's democracy, where, due to capacity problems, TrepCs were established in most of the rural areas in the former bantustans, the hope was that district councils would develop TrepCs to a position where they could perform the functions of municipalities. However, the experience of the first five years of rural local government was that TrepCs never graduated to performing municipal functions.[8] Thus, district councils were faced with the onerous task of preparing not only their own IDPs, but those of local municipalities too. In cases such as Xhalanga and Mqanduli in the Eastern Cape, the local IDPs were often prepared by consultants, acting on instructions from the district council. The perhaps unintended consequence of this, as Davids (2003) correctly points out, and the case of Xhalanga clearly shows, was that local community participation in governance was limited. In this way, 'the central tenets of democratic decentralization and developmental local government, viz. transparent, accountable and participatory developmental processes', could run the risk of being undermined (Davids 2003: 44).

The fact that the demarcation process has vastly expanded the boundaries of municipalities, while at the same time drastically reducing the number of councillors, means that the challenge for the new municipalities is even greater. Once again, the drafters of the ISRDS, which was published in 2000, the year the new municipalities kicked in, must have been aware of these challenges when they indicated that they were looking 'toward a horizon of 2010'. However, there are about five years left to 2010, and there seems to have been very little done by way of practical steps to meet the ideals of the ISRDS.

Linked to the capacity problem outlined above is the question of financing the municipalities. When the district council model was proposed in 1995, the rationale for this model was based on attempts to move towards equity and redistribution in terms of which the wealthier urban councils would be amalgamated with poorer neighbouring communities, and so extend basic services to the latter. This argument, though, does not address the widespread problem in the former bantustans: here the towns that are surrounded by large poverty-stricken rural communities are themselves small and poorly run, and lack a strong revenue base.

The issue of funding rural local government is further complicated by the approach the government is taking on local government funding. This approach flows from the neo-liberal policies dictated by the government's Growth, Employment and Redistribution programme. At least two aspects and implications of this programme need to be raised. First, local government is expected to meet at least 90 per cent of its expenditure needs, although it is entitled to an equitable share of national revenue, which can contribute up to 40 per cent of its revenue (see Davids 2003: 46–7 and footnote 7). Second, and also typical of the principles of neo-liberalism, the management approach is geared towards minimising the role of the state in the delivery of services, in other words, the privatisation of services.

The expectation that municipalities should raise their own revenue does not seem to take into account that most of the citizens in the municipalities incorporating the rural areas of the former bantustans are poor and would struggle to pay for these services. In the majority of cases, these citizens find it difficult to put food on the table. In reality, most of these municipalities would hardly survive without the national transfers (Davids 2003). Any attempt by municipalities to raise revenue from poor communities is likely to lead to disaster, as the outbreak of cholera in the Madlebe Tribal Authority in KwaZulu-Natal in August 2000 showed (Cottle 2003). With regard to privatising public services, the main problem here is that the democratic principles upon which developmental local government is premised would be seriously violated. Researchers and scholars such as Agrawal and Ribot (1999) argue that privatisation undermines democratic decentralisation in the sense that private bodies are essentially accountable to themselves and not downwardly accountable to citizens. In addition, they are often profit-driven, rather than committed to the improvement of the socio-economic conditions of citizens.

Problems concerned with the unclear role of traditional authorities

As indicated, lack of clarity as to the precise role of traditional authorities in rural local governance is also a key factor in explaining problems with rural development. At one level, policy and laws seem to be quite clear about whose role and function it is to promote development in South Africa, including rural development. Both the Constitution and the various government policy documents apportion this task to local government. Yet, at another level, the same Constitution and some policy documents recognise and assign some roles that have a bearing on rural development to the institution of traditional leadership and its incumbents. The problem at this level can be formulated as being how to resolve the tension between institutions based on democratic principles of elected representation and popular participation, on the one hand, and an institution of traditional leadership that is hereditary and, consequently, undemocratic in the sense that its leaders are not subjected to popular choice, for example through elections, on the other.

For almost ten years, the ANC-led government was ambivalent about the precise role of traditional authorities in rural local governance, particularly in local government and land administration. As we have seen, policy and legislation in the immediate post-1994 period seemed, on the whole, to have been driven by a commitment to extending participatory and representative notions of democracy to rural areas. An expression of this radicalism was the promulgation of the Regulation of Development in Rural Areas Act of 1997 by the Eastern Cape Legislature. This Act sought to divest traditional authorities of all their development functions and transfer these to elected councillors. This, of course, was in line with the new functions of local government. However, by the end of 1997, the pendulum seemed to have swung in favour of traditional authorities (Ntsebeza 2002; 2004). The White Paper on Local Government published in March 1998 made broad and sweeping statements about the possible role that traditional authorities could play. Traditional 'leadership' was assigned 'a role closest to the people'. On the issue of development, a task that had been added to local government by the Constitution, the White Paper (1998: 77) boldly asserted: 'There is no doubt that the important role that traditional leaders have played in the development of their communities should be continued.'

The recommendation in the White Paper that 'the institution of traditional leadership' should 'play a role closest to the people' flies in the face of the recommendation of the 1994 ANC election manifesto, the RDP. The RDP was emphatic that democratically elected local government structures should play this role. The White Paper thus marked a major shift in government policy, and has grave consequences for the possibility of democracy in rural areas. Moreover, the statement that traditional authorities played an important role in development among their communities must be viewed with suspicion. No evidence is adduced to support this statement. Existing evidence shows that traditional authorities were never directly involved in development projects. These projects were implemented by government line-departments. Where traditional authorities acted as a link between government departments and their communities, research has shown that they were often corrupt. An example is the illegal taxes traditional authorities imposed in the process of land allocation (see Ntsebeza 1999; 2004).

The issue of the role of traditional authorities was the subject of much discussion and negotiation in the run-up to the second democratic local government election in December 2000. It was instrumental in causing the postponement of announcing the date for the election. The position of the government was still ambivalent. After a series of meetings between the government and traditional authorities, the government made some concessions. The first significant concession was the amendment of the Municipal Structures Act that was successfully rushed through Parliament just before the local government elections. The amendment increased the representation of traditional authorities from 10 per cent to 20 per cent of the total number of councillors. Further, traditional authorities would not only be represented at a local government level, but also at a district and, in the case of KwaZulu-Natal, metropolitan level. Traditional authorities, though, would not have the right to vote.

This concession seemed to encourage traditional authorities to ask for more. They rejected the increase to 20 per cent of councillors. They wanted nothing short of amending the Constitution and legislation flowing from it regarding municipalities in rural areas in the former bantustans. They wanted municipalities to be scrapped in these areas in favour of apartheid-era Tribal Authorities as the primary local government structures. Traditional authorities have claimed that the President had promised them, in word and in writing, that their powers would not be tampered with. If anything, they would be increased.[9] On his part, the President has neither denied nor endorsed the traditional authorities' claim.

The response of the government was, for the second time in as many months, to present a Bill to Parliament to amend the Municipal Structures Act. The Bill did not address the central demand of traditional authorities, the scrapping of municipalities in rural areas in favour of Tribal Authorities. It merely sought to give local government the power to delegate certain powers and functions to traditional authorities. In addition, a range of peripheral duties would be assigned to traditional authorities. Predictably, traditional authorities rejected the Bill and threatened to boycott the 2000 local government election. They also threatened that there would be violence in their areas if their demands were not met. The Bill was subsequently withdrawn on a technicality. It would seem that the President made some undertakings, given that traditional authorities eventually participated in the election.

The manner in which this vexed issue of the role of traditional authorities in a post-1994 democratic South Africa has been handled and negotiated is intriguing. In so far as local government issues are concerned, traditional authorities fall under the Department of Provincial and Local Government. In practice, though, traditional authorities did not seem to recognise this department. They preferred that the President and the Deputy President handle their matters. For example, traditional authorities have submitted almost all their requests to the Office of the President. They seem to think that the Minister of Provincial and Local Government is not as favourably disposed towards them as the President. Alternatively, this might be a deliberate strategy to pit the President against the Minister. With regard to land administration and the Department of Land Affairs, similar shifts in favour of traditional authorities took place.

By August 2002, there was no clarity about how the issue of the role of traditional authorities in local governance would be handled. One of the problems facing the government was that despite the fact that an attempt was made to separate the various powers that were concentrated in Tribal Authorities and to allocate them to various departments, in this case the Departments of Provincial and Local Government (for local government) and Land Affairs (for land administration), there was very little communication between these departments. For example, interviews with some Land Affairs senior officials suggest that the Department of Provincial and Local Government did not consult these officials when proposing the amendment to the Municipal Structures Act regarding giving traditional authorities powers to allocate land. Yet, as already indicated, the task of deciding who should allocate land in rural areas is the competency of the Department of Land Affairs. Under the circumstances, a trade-off of the nature proposed by the Department of Provincial and Local Government was not going to be easy to negotiate.

Resolving the issue of the role of traditional authorities in rural governance

After almost ten years of ambivalence, there seems to be some clarity about the role of traditional authorities in rural governance. There are two pieces of legislation that are important in this regard: the Traditional Leadership and Governance Framework Act and the Communal Land Rights Act. Both went through Parliament in 2003. A significant feature of the 2003 legislative process involving the two departments is that once co-operation took place, it was possible to clinch the trade-off.

An objective of the 2003 Framework Act that is pertinent here is the provision for the establishment and recognition of traditional councils. A traditional council, according to Section 3(1), will be established in an area that has been recognised by the Premier as a traditional community. This would take place, in terms of the preamble, within the context of transforming 'the institution of traditional leadership … in line with constitutional imperatives … so that democratic governance and the values of an open and democratic society may be promoted'. The Act provides for a role for traditional leadership, not only in the local government sphere, but in all three spheres of government. It does not specify a role for traditional authorities in land administration. This is dealt with in the Communal Land Rights Act of 2004.

With regard to the composition of traditional councils, the majority of its members are unelected, made up of traditional authorities and their appointees. Initially, there was a recommendation that a mere 25 per cent of members should be elected. After strong protests from NGOs and other civil society organisations, this number was increased to 40 per cent. This, however, still gives unelected traditional authorities and their appointees a majority. Although there is provision for a minimum of 30 per cent representation of women in the councils, this does not subtract from the fact that the majority of the members are not popularly elected.

It seems clear from discussions in the Portfolio Committee on Provincial and Local Government that establishing traditional councils dominated by traditional authorities and their appointees was a trade-off to persuade traditional authorities not to push for a constitutional amendment regarding the introduction of municipalities in rural areas. Members of the Portfolio Committee agreed that a constitutional amendment could be made after the finalisation of the Framework Bill if there was 'significant consensus between the traditional leaders, South African Local Government Association and other key stakeholders'.[10] In the same report, the Committee suggested that 'transformation in the areas of custom and tradition have to be phased in appropriately' and that 'all stakeholders should be prepared to compromise in this phase'.

A last-minute amendment to the Communal Land Rights Bill by the Cabinet on 8 October 2003, at more or less the same time that the Framework Bill was being considered, seems to have resolved, at least for now, the thorny issue of the role of traditional authorities in rural governance. The Cabinet amendment provided that the traditional councils established in terms of the Framework Act, as described earlier, would have land allocation and administration powers and functions in communal areas. Section 21(2) of the Communal Land Rights Bill reads: 'If a community has a recognised traditional council, the powers and duties of the land administration committee may be exercised and performed by such council.' This gives enormous and unprecedented powers to a structure with a majority of unelected members. This is particularly the case with regard to the allocation of land. Under the colonial and apartheid systems, the final authority in the form of issuing permits to occupy land in communal areas lay with magistrates and, later, District Commissioners. The 2004 Communal Land Rights Act makes traditional councils supreme structures when it comes to land allocation. This means that they will be decentralised and, indeed, despotic in so far as they will be unaccountable.

The amended draft of the Communal Land Rights Bill drew criticism from a range of civil society organisations, and gender and land rights activists who were organised under the auspices of the University of the Western Cape's Programme for Land and Agrarian Studies and the National Land Committee. It also received criticism from some ANC MPs.[11] The uproar was based on the view that traditional councils are 'a retreat from democracy' and an attempt to revive a defunct apartheid institution, which, amongst other things, was deeply discriminatory of women. Cousins and Claassens have argued that under 'customary law' women will be dependent on men and vulnerable to loss of their land and other property on divorce or the death of their husbands (*Mail & Guardian* 31 October to 6 November 2003). Despite the protest, the controversial Bill was bulldozed through and passed unanimously by Parliament on 27 January 2004.

Traditional authorities have given their overwhelming support to the Communal Land Rights Act. The chairperson of the National House of Traditional Authorities, Chief Mpiyezintombi Mzimela, supported the second draft of the Communal Land Rights Bill with these words: 'The Communal Land Right Bill aims to restore to rural communities ownership of the remnants that they occupy of land that the colonial and apartheid government took from them by force – giving the communities registered title, so that it cannot happen again' (*Business Day* 2 December 2003).

Mzimela gave an indication, though, that the push for a constitutional amendment may not be over. According to him: 'Our communities wish to govern their own areas and want traditional communities to constitute the local government, not a fourth tier, but part of the third tier.' He averred that the institution of traditional leadership is the 'only institution that does not have its powers and duties set out in the Constitution', an 'omission' he urged should be 'rectified'. It is important to note that, in the past, traditional authorities insisted that there should be a constitutional amendment making them the primary local government structure in rural areas. The Framework Act has avoided the constitutional amendment and still recognises municipalities made up of elected councillors as the primary form of local government in rural areas, but the establishment of traditional councils has arguably given traditional authorities more powers than elected councillors.

The tension between democracy and traditional authority

A question that arises from this analysis is how to understand who leads the process of rural development in South Africa. For most of the ten years of South Africa's democracy, the indication from the Constitution and various policy documents and laws has been that development, including rural development, was the prime responsibility of local government, operating through municipalities. However, I would argue that granting land administration powers to traditional authorities, as the Communal Land Rights Act does, drastically shifts the power game in favour of traditional authorities. This also means that elected councillors are robbed of one area where they could at least show something by way of delivery, especially given their poor performance in the provision of municipal services, as discussed above.

The issue of rural development, and the role of traditional authorities in it, cannot ignore the history of rural development, or lack thereof under the apartheid regime, in which Tribal Authorities, established in terms of the notorious Bantu Authorities Act of 1951, played a leading role. These structures were dominated by traditional authorities and their appointees who were unaccountable and undemocratic precisely because they were imposed on rural residents, and the latter were never given an opportunity to express their support or rejection of them. This then raises questions about the meaning of the democratic project for rural people. Insofar as the Constitution confers a common citizenship on all South Africans, urban and rural, the assumption should be that whatever rights are enjoyed by urban South Africans should be equally enjoyed by their rural counterparts. However, a crucial implication of the Communal Land Rights Act is that unaccountable institutions such as traditional councils are likely to play an influential function in rural development. This would clearly be at loggerheads with the principles underlying developmental local government, with its stress on accountability and community participation in governance and development.

This should not be interpreted to mean that traditional authorities do not have any role to play in rural development. They are South African citizens and, as such, are protected by the Constitution from exclusion in development planning and implementation. Where they stand out in their communities, and gain popular support, nothing should stop them from assuming leadership positions should they be elected. The issue that is raised in this chapter is the implication of providing a role in rural development for a structure that is unaccountable and undemocratic. I argue that giving traditional councils the powers of land administration will have grave implications not only for democracy in the countryside, but for rural development more broadly. Whereas with elected representatives, communities can replace them if they are not satisfied with their performance, no similar mechanism is available as far as traditional authorities are concerned.

Conclusion

Control over land in rural areas is crucial to the development project in these areas. The role of traditional authorities in rural development since the advent of South Africa's democracy cannot be viewed in a vacuum. It has to be located within the historical context of the role they played under the apartheid regime and attempts since 1994 to establish a credible and democratic order in South Africa that extends democratic rights to all its citizens, rural and urban. I have argued that a key aspect of apartheid-created Tribal Authorities was that they were unaccountable and undemocratic in the sense that the majority of their members were unelected, thus excluding the majority of rural residents from a say in who should administer their affairs. This poses a challenge for a democratic South Africa in terms of how it extends democracy to the countryside.

This chapter has shown how the ANC-led government has embarked on this project, and the important steps it has taken to ensure that development is in the hands of structures that are accountable and provide for community participation in the development process. However, I have argued that recognition in the South African Constitution of the institution of traditional leaders, coupled with the promulgation of the Traditional Leadership and Governance Framework Act and the Communal Land Rights Act, runs the risk of compromising this democratic project. As shown in the chapter, these laws give traditional authorities and their appointees unprecedented powers in land administration. This means that rural development may well be controlled by unaccountable structures, a disturbing departure from the democratic ideals enshrined in the Constitution.

Notes

1 IDPs will be explained later in the chapter.

2 Interview with Headman Zantsi, Manzimahle, 9 September 2000.

3 Interview with Mr Sipho Liwani, Cala, 11 September 2000.

4 Interview with Mr Jama, Cala, 9 September 2000.

5 For details of this case, see Ntsebeza (1999).

6 For details see Ntsebeza (2002) and Van Kessel (1995).

7 For the case of the Sakhisizwe municipal area in the Eastern Cape, see the reports of a local NGO named the Cala University Students' Association (Calusa) since 2000, and Ncapayi (2005). For a historical background to this area, see Ntsebeza (2002).

8 See Ntsebeza (2004a) for the case of the Xhalanga TrepCs.

9 I have not been in a position to obtain a copy of this statement by the President.

10 Report on Traditional Leadership and Governance Framework Bill to the National Assembly, 28 October 2003.

11 This is based on my own observation and participation in some of the meetings.

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