

A CANDID and sometimes provocative analysis of what South Africa could learn from the Latin American economies was laid before the conference by Eliana Cardoso, Brazilian economist and associate professor at Tufts University in the United States.

In a working group focusing on 'prospects and problems of using aid, international loans and domestic capital to alleviate domestic poverty', Cardoso argued strongly that the best policies to fight poverty were macro-stability (keeping the books balanced), transparent tax transfers (the tax you pay is spent visibly) and investment in education.

She said the horrendous Latin American experience with economic populism – heavy borrowing, macro-instability, protectionism, over-valuation – would help convince black South Africans that not all their expectations could be immediately fulfilled, and that economic populism was more costly than conservative macro-economics.

Cardoso said that while South Africa's gross domestic product per capita (\$3 050 in 1991) ranked alongside those of the better-off Latin American economies, disparities as severe as those in Mexico and Brazil were clearly visible when various indicators were broken down.

Drawing on Brazilian evidence, Cardoso drew three conclusions:

- income distribution can change dramatically in less than one year (in contrast to the belief that income distribution changes slowly except through war or revolution);
- macro-economics (rather than micro-economics and the labour market) explains short-term variations in income distribution – inequality varies cyclically, increasing with inflation and unemployment;
- minimum wage legislation does not contribute to better income distribution.

Cardoso stressed that, as the Brazilian case demonstrated, the best way to help the poor was not through manipulation of prices and wages, but through macro-economic stability and a transparent tax-transfer system.



Brazilian Eliana Cardoso with Bob Tucker, former head of SA Perm.

'Horrendous' results of economic populism

In his presentation to this session, SA Reserve Bank governor Chris Stals said there was no better way to answer the poverty problem than to provide better and more job opportunities.

Funds for aid and subsistence which were diverted from other possible uses could provide temporary relief, but in the long term, economic growth offered the only permanent solution.

'Economic populism is more costly than conservative macro-economics'

Stals said the financing of social upliftment programmes with foreign funds offered an acceptable alternative to the 'temptation' to create more money to supplement domestic sources.

When asked whether foreign aid would be good or bad for the South African economy, Stals said that while it would create balance of payment difficulties, it also offered a source of foreign exchange which could lead to a more relaxed monetary policy.

A summary of some of the points raised by Cardoso follows.

- The impact of minimum wage policies

Minimum wage laws aim at altering the distribution of income in favour of lower-income households. However, minimum wages can perversely benefit certain wage-earners at the expense of others.

For example, evidence shows that in Brazil increases in the real minimum wage widened inequality. A possible explanation for this is that an increase in the minimum wage reduces formal employment and increases the number of workers outside formal employment who receive less than the minimum wage.

- The impact of stabilisation on poverty

Just as populism stands for the false dream that growth per capita can exceed productivity growth, the question of

whether the poor suffer from adjustment programmes poses a false dilemma.

Adjustment programmes which reduce government spending and devalue currency have the effect of reducing real income and increasing unemployment in the short run. But adjustment is unavoidable in most cases, and the decline in welfare during such programmes derives in good measure from conditions that existed prior to such programmes – declining terms of trade, reduced external finance, increased debt service costs, and unsustainable deficits.

In the final analysis, inflation, stabilisation and adjustments are costly and the only consistent alternative open to governments is the maintenance of conservative macro-economic policies. On these grounds, the Colombian model stands out.

Although the benefits of policies are very slow to arise and poverty has not shown a significant improvement, they seem to be the most suitable in the long term.

- Poverty programmes

The fight against poverty needs to combine policies that allow the poor to increase current consumption, with investment to generate future growth of their income.

These policies must consider the links between income, health and education, and give special emphasis to female education.

Aid: Cuba counted out

CLOSELY questioned on conditions in Cuba by South African Communist Party economist Essop Pahad, Brazilian economist Eliana Cardoso warned against relying on foreign subsidies and loans.

She said that in 1989 Cuba was still as dependent on sugar production as it had been in 1959.

This situation had arisen because of the vast loans and subsidies Cuba had received from the Soviet Union, which had made it possible for a country with a poor economy to enjoy social indicators (health and education systems) that were among the best in the Western hemisphere.

The problem was that in 1992, following the collapse of the Soviet Union and the withdrawal of Soviet subsidies, there were now food queues and children were going blind as a result of vitamin shortages.

Asked whether present conditions in Cuba were not the result of the continued United States blockade of the island, rather than the withdrawal of subsidies, Cardoso adamantly demurred.

She acknowledged that the excellent health and education system in Cuba was the product not only of communist bloc aid, but also the implementation of a socialist system which favoured equality and a good distribution of social benefits.

However, she stressed that 'the system worked well to provide an equal and minimum standard of living, as long as it could rely on the Soviet Union'. As a production system it did not work. The economy was totally dependent on sugar and there was no incentive to work. Absenteeism was a huge problem in Cuba.

She said in 1992 Cuba was an economy 'living off spare parts'. All the education that had been built up could sustain neither people nor their high ideals.

She said the US blockade had been in force for 30 years but the USSR subsidies had made it possible for Cuba to survive. 'The moment the subsidies disappeared, the whole system collapsed.'

Anxious not to be misunderstood, Cardoso stressed the importance of social programmes. 'We want social programmes,' she said, 'but we want social programmes that subsidise themselves.'



Dave Lewis and Dave Kaplan, both of the Development Policy Research Unit at UCT.



PAC president Clarence Makwetu and Helen Suzman.

given the evidence that women's education has a strong positive effect in reducing fertility rates and child mortality.

'Best way to help the poor is not through manipulation of prices and wages'

The debate on poverty programmes remains open. The questions revolve around two issues: firstly, the interpretation of various social indicators and secondly, how to understand the change in indicators - were

they driven by macro-economic developments or by social policies?

Poverty programmes may be a way of significantly improving the situation of the poor. The Brazilian example shows that education can account for much of the income disparity, while Bolivia, Mexico and Chile demonstrate that health and income generation are other important areas for policy focus.

In order to take the first step in alleviating poverty, these examples show that South Africa will need to combine aggressive poverty programmes with conservative macro-economic policies.