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POST-APARTHEID SOUTH AFRICA: THE MACROECONOMIC PERSPECTIVES FOR YEAR ONE AND BEYOND

ANC Seminar on Economic Policy

Harare, Zimbabwe.
April 29-May 2 1990

Vella Pillay
April 12 1990

Introduction

With the ANC's commitment to a "mixed economy" approach to the policy of a democratic S.Africa, a number of key questions concerning the role of the democratic state in the economy need to be defined, thus -

> The power to formulate and implement a programme for the dismantling of the economic aspects of the apartheid system, and systematically overcome its effects on the life and labour of the people. Since economic growth at a sustainable level would be impossible without an accompanying policy of substantial income transfers to the poor and needy, the pervasiveness of the powers of the state in these respects require to be clearly established. The scale of the remedies and the initiatives required to transform the apartheid economy into an economy grounded in what may be termed a 'caring democracy' will inevitably call for mechanisms of national economic planning and of suitable forms of public ownership of certain key sectors of the economy.

The building blocks for such a mixed economy programme will undoubtedly be explored by Cde. Laurence Harris in his talk. A paper by Cde. Ben Fine also looks at this problem. My task here is to examine the opportunities, challenges and problems which emerge for the post apartheid economy in the critical YEAR ONE, so to speak, and the way in which this may have an influence on the strategic direction of our economic policy and relatedly on the role of the democratic state.

Where and How do we Start?

Let me start with two observations.

First, a democratic government will inherit a highly statist economy, and this notwithstanding recent trends towards the privatisation of public assets. It will be an economy characterised by high levels of government intervention, of large parastatal corporations, and of state regulation of economic activity which in several instances exist at a highly detailed level. The question we need to consider is this: whether or not the post-apartheid state will find the levers of economic intervention and control required for constructing a democratic and socially useful economy, are already in place and ready to be used for purposes entirely different from that employed by the apartheid regime.

I will consider this later.

Secondly, if we take into account the ever-rising costs of keeping the apartheid system in place, then evidently its abolition could generate a sizable increase in the nation's resources in line with the economy's potential capabilities. In a word, the ending of apartheid creates the conditions for what in essence could be a positive sum game for the economy.

In this strain, let me speculate about the opportunities which emerge in this respect and which I expect our mixed economy policy will seek to exploit.

1. Given all other things unchanged (namely, no capital flight, no loss of labour skills and so on) I would estimate that the post-apartheid economy would enjoy a substantial increase of real resources with an accompanying rise in income and productivity. The oil embargo will end as indeed other forms of international sanctions; this in turn could bring about an improvement in the country's terms of trade. Quantitatively, this improvement could be as much as $2-3 billion or around R10 billion in Year One.

2. Again given all other things unchanged, the lifting of restrictions imposed on foreign capital inflows could be significant, since this would release the constraints on economic growth now imposed by the need to repay, rather than roll over, foreign loans. Access to funds from the international monetary institutions could perhaps be reopened. Here again, I would estimate that the capital account of the balance of payments of a post-apartheid S.Africa could experience a turn-round from a deficit of $2-3 billion a year to at least a break-even position.

3. Ending apartheid will substantially reduce the need for the current scale of expenditures on defence and internal security - presently absorbing about 22 percent of annual budgetary spending. The savings from this source could amount to between $1-2 billion a year (around R4-5 billion).

4. Following an early movement towards significant improvements in wage incomes, social welfare and education of the black population, the consequent

increases in domestic consumer expenditure could substantially increase output by utilizing existing installed capacity at a much higher rate than has been presently possible. This suggests that the increase could take place without corresponding increases in new capital investment in many sectors of the economy. That in turn could increase employment and further support the forces propelling the economy out of the present long crisis, and into a new phase of expansion.

5. The ending of apartheid could sharply cut back a number of inefficiencies in resource allocation; these include the remnants of job reservation, restrictions on the free movement of people within the country, commuter and travel costs resulting from residential segregation, duplicate administrations which serve to enforce apartheid, investment in strategic industries as a result of sanctions and which otherwise would make no sense in a free S.Africa.

All this may be viewed as providing an early post-apartheid dividend of perhaps some 10-15 percent of the GDP and which could ease the advance of some of the initial macroeconomic tasks towards creating the democratic state, and in particular allow it to undertake the first steps towards addressing the problems of poverty and deprivation among our people.

But there is a caveat to all this. It arises from the strong assumption that the transition will be smooth and relatively peaceful, and that the promises of a democratic state for substantial income transfers and other measures will take place wthout disruption or the flight of skills and capital and much else. In a word, the task of <u>unwinding the effects of apartheid has the potentiality of being neither cost-free nor painless.</u>

Further, there are the possibilities that the international capital markets and the international monetary institutions will take a wary view of the post-apartheid economy and its policies, pressurise us for the opening of the economy to private capital, the curbing of our income and property redistribution programmes, and to secure the dominance of market relations of production and distribution.

Initial Macroeconomic and Social Challenges

I now wish to move to the next set of YEAR ONE issues. These refer to a number of major short-term challenges which are likely to confront the democratic state and which could have a major influence on its macreconomic policies. Thus, if for whatever reason, the benefits from the ending of apartheid take a longer period to materialise, whereas the tasks of moving forward to redress some of the more starker deprivations of the people are relatively immediate, then the challenges appear as follows:

1. The abolition of all controls and restrictions over the provision of health services and facilities would impose substantial demands for extended health and hospital facilities and in particular to end the underfunded facilities for the black population especially in the homelands.

2. In terms of a budgetary commitment, the biggest single increase will perhaps be the provision for adequate resources for education and training. The scale of the costs involved needs to be noted. Raising per capita spending on black students in primary and secondary schools to only one-half the level for whites would cost around R6-7 billion or around $2 billion a year.

3. The current preference given to white semi- and unskilled workers in many jobs, especially in the parastatal organisatiions will come to an end. The de facto "civilised labour policy", the various structured forms of job reservation, and generally the employment and wage preferences ruling in the public sector, will end giving rise to intense competition of a more of less conflictual nature, for jobs between whites and blacks. Resolution of this problem could prove difficult, other than a hope that, over time, economic growth will create a rising level of employment, and will serve to mitigate the tensions implicit in such a situation. At the same time there will be every interest on the part of the democratic state to retain the services of skilled whites: the correction of the white dominance over a wide range of technical and scientific positions will take time, and will be crucially related to the resources devoted to the education, the training and retraining of the black working population. All this could constitute a tense problem for macroeconomic as indeed for macro-social policy in Year One.

4. Next, there exists a problem which I raise with some trepidation in view of the presence of several of our leading trade union comrades from within the country. The expectations of the organised working class are bound to be a material factor in any analysis of the fundamental aims of macroeconomic policy. Given the scale of the claims on the national output for dealing with the problems of poverty, of education and other areas of blatant deprivation, the resource requirements of the democratic state, including the reconstitution of the state's capital assets through the nationalisation of privatised parastatals and other targetted monopolies - all this will have to be matched against the claims for a larger wage fund for distribution among the working people of our country. Yes, and despite the caveats I have mentioned earlier, we have the post-apartheid dividend. However, in terms of the expectations of our people this is

unlikely to be sufficient within our YEAR ONE scenario unless the democratic state can arrive at an understanding with the trade unions for a social compact which defines the size of the wage fund and the level of income transfers in relation to all other issues of concern for the trade union movement.

5. Next, we have a number of immediate policy problems. First, how do we manage the capital account of the balance of payments - do we employ the existing exchange controls or do we tighten them? How do we measure the impact of such controls on what is called "international confidence" and hence on capital inflows and loans from the international capital markets and the monetary institutions? Further, there is the vexed problem of how a state-induced income redistribution structure can be installed as the creation of formal mechanisms to advance towards more socially-based ownership systems. Laurence Harris will, I expect, be dealing with some of these issues and, in particular, the key problem of how do we pay for a mixed economy without causing a heavy spilling of blood, in actuality and figuratively speaking, in the opening days and months of YEAR ONE.

6. Finally, our economy is heavily dependent on its gold and mining industries - for employment, for foreign exchange and a source of demand on the manufacturing sectors of the economy. The problem with this mining sector is that its contribution to the national economy is considerable whereas its treatment of its workers has been and remains a downright scandal. In YEAR ONE we will be subject to considerable pressure to address this issue, although, in my judgement, progress to correct this situation could be rather slow. However, the industry is highly monopolised; it is controlled by levels of capital concentration which must be reckoned as unique in the capitalist world. Next, the industry's impact on the domestic economy is crucially governed by market forces largely lying outside its control -

namely, the world market and fluctuating international values for its exports. It is apparent that little could be immediately done towards resolving these contradictions, but this does open up the entire issue of ownership in the mining industry and next, the need for a planned movement towards the restructuring of the economy away from excessive dependence on what in effect are the vagaries of the world market.

Policy Choices in YEAR ONE and Beyond

I have drawn attention to the fact that S.Africa has a large public sector and in many respects can be regarded as a statist economy. In 1986, for example, 43 percent of the estimated value of fixed capital was owned by private business enterprises. The balance was owned by the public sector (57 percent) and this can be disaggregated as follows - 19 percent by public authorities, 15 percent by public corporations and 23 percent by various government agencies.

As I have suggested earlier, the economy is highly regulated and controlled. There exists: an elaborate tariff and import control structure; subsidies to various private sector activities, especially in agriculture; marketing boards and price support systems for all major and even minor, agricultural commodities. There exist what is called "rationalisation" programmes for industries that limit competition as well as various elements of exchange controls over foreign transactions. On top of all this we have the extensive apparatus of apartheid over such areas as labour mobilisation and control, the allocation of land, housing and much else.

In all these senses, then, the S.African economy is perhaps among the most interventionist and centrally directed in the world, notwithstanding the rhetoric to the contrary. This, I suggest, provides a feasible base from which our movement will need to proceed, but in a way which satisfies several of the key expectations of our people, and our larger strategic objectives for the economy. It is within this context, that I would like to briefly consider some areas of our post-YEAR ONE policy problems.

Issues of Equality and Distribution

The importance of the movement towards equality in income and wealth revolves around five areas where a real progress will be required -

1. The Land Question. This is undoubtedly much the most urgent, decisive and complex of questions confronting a democratic S.Africa. For what is implied here is a process of agricultural land redistribution which substantially enhances the ability of the black people to earn a rising standard of living from farming, and for that to take place in a way which does not lead to any adverse consequences for aggregate farm production and food supply? Some ideas have been advanced on how this may be possible. We have Helena Dolny here and I look forward to listening to her proposals. Tessa Marcus has proposed a policy of land nationalisation followed by a programme of land leasing to farmers but weighted in favour of the African people. Others have proposed a graduated land tax (graduated according to land size and location) which could release land for sale or rent to black farmers. There are also proposals for a discriminatory structure of farm subsidies favouring the black farmer, and next for a Land

Bank to assist the black people to acquiring land; here, the Bank would be required to fund water control, irrigation and other infrastructural need for the black farming communities.

2. The Urban Land Question. The issue raised here is this: how do we dissolve the "township" condition and status of African life and start a process of unity and of common services in the urban areas? The abolition of the Group Areas Act and other restrictive residential laws will do nothing to correct the present situation unless land values are substantially reduced and accompanied by an extensive house building programme supported by the funding of home ownership through state-owned or municipal mortgage banks and next by a major improvement in transport services.

3. The Ownership of Physical and Financial Assets. What will guide us here is the fact that the private sector corporations and their owners have been the principal beneficiaries of apartheid, with the major conglomerates and foreign capital maintaining a close organic relationship with the apartheid state. Hence, if liberation is to mean anything at all, this extraordinary concentration of ownership and power in the hands of private capital needs to be broken up in one way or another.

First, let us consider briefly the position of foreign capital and share ownership. Here, in effect, the regime under the pressures of financial sanctions has forced the transfer into local hands of considerable amounts of foreign company and financial assets - this has taken the form of the nationalisation of large sections of foreign interests, through the depreciation of the value of the commercial rand and the virtual collapse of the financial rand (through which the repatriation of disinvested capital alone can take place). In effect, then, disinvesting companies have been forced to sell off their interests at throw-away prices. Perhaps, the post-apartheid state will simply continue to maintain these currency policies, but with additional powers to distribute these foreign assets either towards the state or to cooperatives or community associations or directly to the work force involved. Serious thought needs to be given to the manner in which this policy is pursued in view of the country's undoubted needs for the supply of foreign capital and loans.

Secondly, there are the domestic companies and those in mining and industry which are subject to a particularly high degree of concentration of ownership. The amounts flowing through the corporate sector as a whole are sizable: pre-tax profits of business enterprises account for 35-40 percent of GNP. Net post-tax operating surpluses of these corporate entities after provision for capital allowances account for 10-15 percent of the GNP. This latter figure suggests what the post-apartheid state will gain in resources through a programme of nationalisation. However, there exist other approaches which need discussion in the context of a mixed economy approach: these include the curbing of monopoly power and where necessary dismembering them and otherwise for the state to acquire a direct role in the capital structure of such monopolies, as in mining, in line with its responsibilities to the public interest.

4. Selective Nationalisation Policies. In his earlier paper on the mixed economy, Cde. Harris suggested that nationalisation may well be confined to what was termed the "commanding heights". What these heights are need to be defined. I would like to draw attention to a proposal by Jonathan Barrett who contributed an article in the Weekly Mail debate on economic policy of March 30.

Barrett, basing himself on the researches of Robin McGregor('Who Owns Whom') proposes that the post-apartheid state need only take control of Old Mutual and SANLAM - the two giant mutual life associations, and through this act bring a wide and substantial number of companies, including those in the mining industry, within the ambit of state policy. I would add another positive feature of this proposal: the pension, life insurance and the building society sectors are important vehicles for the mobilisation of personal savings. Those savings need to be directed towards economic growth and an employment-creating investment policy. Any planning programme by the democratic state will need to win control of the flow of these savings.

5. Finally, there is the question of the recasting of the wage and income structure in the direction of greater equality. I would want to listen closely to our comrades from the trade unions on how they understand this problem and the policies they recommend for the post-apartheid state. It is easy to propose the dismantling of wage differentials which arise solely from race. But the issue is how a programme of sustainable progress towards such equality can be pursued through an officially sanctioned programme.

Conclusion

Underlying the points I have sought to make are the following -

a. We confront in YEAR ONE such forces of capital ownership, of and of financial power that any policy to secure material changes in the lives of our people is only feasible through the sustaining the centralising authority which the democratic state will inherit. The need to ensure that that authority is enforced through recognisable democratic channels and in a non-bueaucratic manner in no way undermines the requirement that the authority must be located in the democratic state.

b. In the transition from apartheid to people's power, we would be principally concerned to turn on its head the role of those instruments of economic management and control inherited from the apartheid state, by which I mean those policy instruments which could be employed for our own popular objectives. The mix between what is to be left to the market and what is to be retained for regulation by the democratic authorities could thus be significantly influenced by those inherited instruments of policy.

c. And finally, any policy which advances our objectives must be rooted in the concrete realities of our country. We need to seek our own answers to our current problems and to creatively pursue our own path forward. We should avoid seeking to emulate what other countries have been or are doing. Rather than look for models we should seek discover our own through a closer understanding and analysis of the social and economic characteristics of our country. This I believe is critically necessary if we are to avoid the pitfalls and mistakes so evident in large parts of the Third World, and more recently in a number of socialist countries.