

The current costs of a prosperous future:

Some aspects of growth and redistribution in the South African economy.

The South African economy has performed very poorly during much of the past two decades. The consequences of this are that unemployment and poverty have worsened, productivity growth has been retarded, and accumulation of capital has been slow. It is also possible that the violent turns which popular political mobilisation have occasionally taken are related to the unhappy state of trade, for under desperate circumstances politics are not conducted in quiet tones. And when the economy is weak, government's reaction to unrest all too easily takes on brutal forms, less costly than socio-economic upliftment.

This is a dismal picture. There is, however, another side to the record of the 1970s and 1980s. One outcome of the imposition of financial sanctions, for example, is that we have been forced to save more than we would otherwise have done. Formerly foreign-owned assets have been acquired on favourable terms and the annual cost of servicing foreign capital and loans is lower than it would otherwise have been: future generations will benefit from this. But the more important sources of future progress and forms of investment in the South African economy which have been made in recent times cannot tidily be described or quantified. We have begun to create the social, legal and institutional environment for a post-apartheid society and we have begun to distribute economic opportunities and human development more fairly.

This is not just a matter of dismantling apartheid and creating the conditions for a just social and political order. The foundations for accelerated long-run economic growth are also being laid.

The construction of a non-racial society and a just economy has, of course, a long way to go yet. Until the architects of the new order are answerable to a non-racial democratic political order, their designs will be little more than temporary shelters. But we should not make the mistake of thinking that 'nothing has changed'. Some things have changed a great deal, and these changes are shaping our economic future. Change is a costly process, with many possibilities for going wrong: it requires, if accelerated growth is to be accompanied by effective redistribution, participation in decision-making by a wide spectrum of interests. The alternative is that the shape of the post-apartheid society and economy will have been cast in concrete by the present regime by the time a democratic government takes over power.

Four key aspects of socio-economic restructuring are discussed below.

Wages and prices

Relative prices and wages determine the real rewards which attach to work and enterprise of different kinds. What have been the most striking trends in recent decades?

Wage rates for semi-skilled labour in the formal sectors of the economy – principally, in mining, manufacturing and construction – rose in real terms during the 1970s and early 1980s. Broadly speaking, the sharp gap between black and white wages in industry, reinforced by apartheid discriminatory policies in the past, is giving way to earnings differentials attributable to skill differences. These are in turn associated with education, training abilities and other sources of productivity. However, there remains a marked, and probably increasing, gap between wages in the formal unionised sectors of industry and incomes of farmworkers, household service workers and the growing underclass of informal sector and seasonal or semi-employed workers in towns and in rural areas.

It is frequently argued in business and financial circles that unions, by driving up wages, worsen the unemployment problem in the economy. The prospects of sustaining industrial development clearly hinge, in part, on international cost-competitiveness, and wages are a major item in the cost calculation. But the issue is more complex than this. Our cities are now 'dual economies' in the sense that there are large numbers of people without formal work who depend on informal trading opportunities. Rising wages in industry are an important source of incomes and indirect job creation in the fleeting shadows between the formal and informal economies. Jobs are lost when employers curtail employment as real wages rise, but incomes are also created through the associated increased spending of the employed in informal services.

Furthermore, and this is more important, this trend is associated with accelerated **learning** in both the formal and informal sectors. In industry employers have to increase training and reduce organisational slack if productivity is to keep up with wage rises, while in the informal sector entrepreneurial and productive skills are fostered as bricklayers, mechanics, dressmakers and traders respond to new opportunities.

The 'recorded' economy may not be doing well, but there is a 'restructuring' of employment and remuneration going on here which is in some respects good for both income distribution and long-run growth. 'How good' we don't yet know. In the most favourable scenario, informal and low-income trading concerns will grow, become more

profitable and in due course be drawn into the recorded growth of the formal economy. In a less happy scenario, in which formal job creation fails to keep pace with numbers of workseekers, it is all the more important that a vibrant secondary sector in suburbs and townships should be maintained by the spending power of the waged.

Getting administered wages and prices right will be an important factor in determining growth prospects. The relentless growth and complexity of the bureaucracy and of parastatal corporations required for the increasingly ineffective 'modernization' of racial domination, have put such pressure on markets for scarce managers, professionals and administrators that expertise has become expensive, making this a costly economy in which to establish, expand or diversify. The less useful parts of the public sector - homeland administrations and corporations, for example - provide job security and comfortable incomes to too many people. And the economy has suffered in the 1980s from rather inept monetary and exchange rate policies: business confidence and investment will depend on more stable financial conditions. In this respect the second half of the 1980s has been a marked improvement on the previous decade or so, and there have been encouraging signs recently in foreign trade and capital flows.

Urbanisation

Accelerated urbanisation is costly. Physical infrastructure and services have to be paid for and require complex kinds of cross-subsidisation and long-term financing as migrants to cities do not bring with them the necessary capital. But urbanisation clearly represents an important form of investment and in future welfare and quality of life.

The opportunities for human development are more diverse and more vital in urban environments. Schools, colleges and sports facilities are more accessible, health services are available, trading opportunities abound: in general, more people and more activities mean more rapid learning of skills and abilities. There are also congestion costs, of course, and these may be considerable in inadequately serviced townships and informal settlements. Over-crowding brings with it distress and conflict. The benefits of urbanisation do not come cheaply.

This means that, for a while, current consumption and living standards must be reduced as the backlogs of 'retarded urbanisation' over past decades are redressed. The process is underway, but far from optimally. Government subsidisation of housing under the 'First Time Home Owner' scheme has been so generous that there has been no prospect of extending the system to the majority of low-income urban migrants. A review of housing policy has been undertaken and the Urban Foundation has gone a long way towards identifying more appropriate financing arrangements. Attention now needs to focus on the training, organisational and technical aspects of promoting small-scale building and engineering contracting. This is a sector in which import requirements are limited and much can be done labour-intensively. It makes no sense for an economy crying out for urban infrastructural and residential development to have extensive unutilised capacity in its construction sector.

Investment

Apartheid South Africa, fearful of the prospect of international isolation, committed very considerable resources to preparing for a long-term siege. It is probable that the SASOL and MOSGAS projects, much of the armaments industry created during the past thirty years, and a substantial part of the social and industrial research financed by the state, were not warranted on strict cost-efficiency grounds. We have, in effect, infested scarce resources, particularly scarce expertise, in preparing for a future to which we need not, thankfully, be condemned.

Future generations will be the more prosperous for the redirection of these resources to the provision of goods and services the post-apartheid economy will require. This process has begun. Research priorities have shifted, government is reversing its commitment to self-sufficiency, and the provision of social services and development initiatives is becoming less blatantly discriminatory.

For the immediate future, however, we are confronted with scarcities and constraints which arise from inadequate investments and inappropriate government programmes and policies in the past. Agricultural extension in homeland rural areas is inept, the quality of schooling is appalling, new technologies for low-income housing projects have to be learnt, there are not enough accountants and bookkeepers to keep small businesses on the right side of profitability. The industrial decentralization policy has contributed to the creation of infrastructure in low-wage regions of the economy, with some spread of employment, but probably at some cost in terms of investment in the metropolitan core.

Much of the challenge is to use existing facilities more effectively. Good transport networks, for example, which have served the dubious purpose of moving workers between apartheid-defined places of work and places of residence, also provide the basis for efficient movement of goods and services. Substantial excess capacity in electricity generation means that electrification of metropolitan townships and rural areas is possible.

Plainly, physical infrastructure - roads, rail-links, water supply systems, industrial sites - cannot be accumulated in one step. Equally, and this is perhaps less obvious, investment in social infrastructure cannot occur rapidly. Spending more money on education or health, or creating new development corporations, serves little purpose if the real resources required for the services do not exist. The most scarce of resources are competent 'development people': educators, health practitioners, innovators and administrators. So it is possible for increased spending even on education to outstrip its usefulness.

The 1980s has seen a modest increase in government spending on social infrastructure, some attempts to redress racial imbalances in the available resources, and an acceleration of investment in urban residential infrastructure. The process has a long way to go before the shape of the apartheid city will fundamentally change. There are complex interplays between migration to the cities and prospects for land reform and agricultural development in homeland areas which are not yet adequately understood. As programmes of **investment** in the post-apartheid economy, the benefits of these reforms will belong to future generations.

Institutions, innovation and information

Dismantling apartheid is fundamentally a matter of institutional reorganization, and in this regard government's responsibility for regulation, legislation, arbitration and coordination is crucial. Apartheid reaches deep into the social fabric of South Africa and so the institutional transformation required is radical. There still, nonetheless, be important threads of continuity with the past.

Both the power of organized labour and the mobility of black workseekers have increased dramatically with the implementation during the past decade or so of recommendations of the Wiehahn and Riekert Commissions respectively. These two trends must be seen together, of course, as the influx of workseekers to cities has served to some extent to moderate the effective bargaining power of trade unions. Government attention to the control and pace of urbanisation of cities and townships, deracialisation of trading and public amenities, and attempted reform of local government are inter-related with the reorganization of the industrial labour market which began in the late 1970s.

Also associated with these trends is the somewhat ponderous reform of black education which is in progress and the rather more dynamic mushrooming of non-formal training activities which has occurred in the private sector during the past decade.

Alongside these major trends are numerous reforms and adaptations of companies, official agencies and non-governmental organizations, new projects, public lobbying and agitation, and political re-grouping. Clearly innovation is facilitated by liberal values in society: a tolerance of change and wide freedoms of choice. Change is also facilitated by good quality education, social mobility, urbanisation and international movement of people and ideas. Research can play a role. One of the most interesting aspects of institutional change is the interaction, or lack thereof, between government and non-governmental projects. It is often easier for small projects or organisations to innovate, but the resources of the state may be required for extensive implementation of change. There is much to be said for variety and diversity in this regard: many change agents at work can test and modify critical elements in socio-economic restructuring and can reduce the risks which attach to ambitious bureaucratic social reorganization.

Effective flows of information are vital for this process. When government sets for itself ambitious objectives, awkward information or unintended spin-off effects are all too easily neglected. If policy formation is to be well

informed, it is critical that information flows from a wide variety of interests and sources should enter into decision-making. When urbanisation and industrial development are high on the agenda, deliberate efforts to represent the interests of the rural poor are required. When deregulation and privatization are the things politicians are talking about in their sleep, we need to remind ourselves of the purposes of health regulations and environmental protection. When nationalisation of industry comes to be properly considered it will be found to be a blunt instrument of wealth redistribution. When freehold land reform is carefully examined, it turns out to be a minor aspect of an effective rural development strategy. And most critically, democratisation rests not only on the influence of educated elites but fundamentally on a well-informed voting public.

There is no benign hand in the sky drafting the constitutions of post-apartheid organisations. Government is managing a reform programme under pressure from its own constituencies, private sector interests, organised internal resistance, and international sanctions. Business, white agriculture, homeland governments, service organizations and political movements are looking after their own interests in a complex unpredictable strategic environment. Not all the changes which are in progress are desirable or effective, and there are contradictory and irrational forces at work.

There are those who take the view that current reforms constitute a great deception – a shoring up of racial domination in bureaucratic or capitalist complexities. If this is so then the future is bleak indeed, for we will pay the price of institutional restructuring twice over. Much of the evidence that this is not so is conveniently filed in publications of, amongst other, the Institute of Race Relations, and need not be rehearsed here. There are, nonetheless, many signs of ambiguity and confusion in the drift of policy and institutional change. It may be appropriate to conclude with a warning indicated by Nobel Prize-winning economist Kenneth Arrow in a study called **The Limits of Organization** some years ago. When major institutional changes occur, Arrow pointed out, without at the same time the dismantling of out-moded structures of beliefs, behaviour and organization, then society becomes vulnerable to the greatest tragedies of history: unrelenting clashes of ideologies supported by rival rules of accountability, organisations, resources, infrastructure, and perhaps armed forces. □

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