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Economic choices for Post-Apartheid South Africa

(Extracts from an Inaugural Lecture)

INTRODUCTION

A political democracy is close to being achieved in South Africa. Turning the democratic society into an economic success will require the achievement of a high rate of economic growth, and the elimination of the income inequalities which have resulted from 42 years of institutionalized apartheid, and neither of these goals will be easy to attain.

At the present time the economic expectations of blacks have risen, and a failure of political reforms to generate economic gains will be likely to generate a resurgence of political instability, pressing policy makers towards radical economic options. The choice of economic policy will be a crucial element in determining the long run success of political developments, and the options need debating at the professional and at a public level before ill-conceived experiments are allowed to occur. Politicians must also be made to take cognisance of realistic economic policy options, and be made to temper promises which raise expectations but which cannot be fulfilled.

Without question the choice of economic policy for the future South Africa is the most pressing issue confronting the economics profession in South Africa at present, and for this reason I have elected to address it in this inaugural. A single lecture can, however, only set out some of the issues, and the question of land ownership is not discussed at all . . .

ECONOMIC GROWTH AND INEQUALITY IN SOUTH AFRICA

In 1986 the South African economy had a per capita income of $1 850, which placed it 75th when ranked from lowest to highest of the 120 countries reporting incomes to the World Bank. It fell into the 'upper-middle income' group of semi-industrialized economies (The World Bank, p.225). Many of the middle income economies exhibit very high levels of inequality, and within the group of middle income developing economies South Africa exhibits the greatest degree of income inequality. The very low share of income (estimated at 1,5 per cent) of the bottom 20 per cent of the South African population, the high levels of racial income inequality with white per capita incomes in 1987 being 9,5 times black per capita incomes, and the wide urban-rural income differentials, indicate that poverty will be widespread and concentrated amongst the black population, and that it will be particularly prevalent in informal settlements and in the non-metropolitan regions (McGrath, 1984; Nel, pp. 6-8). The racial income inequalities which characterise the South African economy are quite unacceptable from a moral standpoint and are the basis of demands for redistribution.

RECENT SLOW GROWTH

In the 1980s the growth performance of the South African economy has deteriorated. The real annual compound growth rate of Gross Domestic Product (GDP) slipped to 2,8 per cent in the 1970s and to 1,7 per cent for the period 1980 to 1987. In terms of relative economic performance, the South African economy fell from its moderately successful 7th ranking among 20 developing countries for the period 1960 – 1970, to an indifferent 14th position for the 1970s and 1980s[1] (Moll, p.80). Population growth at 2,8 per cent per annum exceeded the growth of income per head in this later period, so that per capita incomes declined. The aggregate rate of profit in the manufacturing sector had declined since 1948 and severe declines were recorded in the period 1981 – 1986 (Nattrass, pp. 112-120). This deterioration in economic performance can partially be attributed to apartheid, while the rest can be attributed to adverse international developments and inappropriate domestic economic policies.

By moving into a lower growth path by the 1980s, the South African economy's capacity to absorb its rapidly growing labour force was dramatically depressed. Between 1980 and 1989 formal wage employment in the non agricultural sectors increased in total by only 8,5 per cent, adding only 400 000 additional jobs in total, while the labour force grew **annually** by 270 000 – representing in total an addition of 2,4 million people over the period. In developing economies the benefits from economic growth are spread largely through the absorption of the population into modern sector employment, and the stage at which economic inequality begins to narrow rapidly occurs when the demand for labour outstrips supply allowing market forces to drive up real wage rates.

In the South African case, wage increases for black workers in the 1970s were a result of institutional pressures and interventions and a rising skill composition of employment, rather than a result of market scarcity. The low rate of growth of employment in the 1980s has restricted the gains from economic growth to a relatively diminishing share of the population. Further, although there are signs of an emerging integration of the labour market, black workers still remain crowded into lower skilled occupations, while white workers dominate in the managerial, technical and supervisory grades of employment (Knight and McGrath, 1987).

The low growth path of the economy is presently generating very stark economic inequality. For the large proportion of the growing number of the population unable to find modern sector work, subsistence now depends on transfers from employees in the modern sector, state transfer payments (mainly of old age pensions) and earnings from the informal sector.

This analysis points to the almost paramount importance of achieving economic growth. Economic growth and equity cannot simply be traded-off in the South African case. Accelerating the growth rate of the economy is an absolutely necessary component of a strategy of redistribution. The pressing issue is how can the economy be moved onto a higher growth path which will also rapidly reduce income inequality and poverty. In raising the growth rate lessons can be learnt from the characteristics of the more successful developing economies.

ECONOMIC GROWTH SUCCESS STORIES OF THE 1980s

In the early 1980s, the developing countries faced recession in the industrialized economies and hence a slow expansion of international trade, a substantial decline in primary commodity prices, rising interest rates and debt burdens. There was a wide divergence of economic growth rates among the developing economies and a sharp deceleration of growth of the group as a whole. Only 14 developing countries out of a sample of 80 countries could be classified as fast growing over the period 1981-1985 (United Nations, 1987). Some important characteristics of their performance are summarised in Table 1, with the net energy importers distinguished as a separate category. Table 1 shows:

(1) The degree of export orientation (Rows 1 and 2) was a major factor differentiating economic performance. The international economic situation of the early 1980s was unfavourable for exports, but the high growth energy-importing economies were much more export orientated than other developing countries in this category. The nature of their export orientation was, however, more significant than its degree. For the fast growing energy importers the importance of manufactures in exports was much larger than for the other energy importers. The export growth of these fast growing economies also allowed them to maintain their import capacity, in strong contrast to the other developing economies. It is worth noting that in the successful East Asian 'super-exporters', governments did not provide more incentives for exporting than for import-substituting production (Krueger, p. 108).

(2) In terms of domestic economic performance there were also major differences in the ratio of investment to GDP (I/y), the ratio of savings to GDP (S/y), and the rate of inflation between the fast growing countries and the others. (Rows 3 to 5). Notably, for the high growth energy importing countries the average ratio of S/y during 1981-1983 was 21 per cent, compared with an average of 11 per cent for other countries in the group. For the fast growing energy importers this meant a smaller relative gap between I/y, and S/y, enabling them to finance their higher investment ratio with less reliance on foreign saving.

(3) Rising real interest rates and debt burdens caused major problems for developing countries in the period 1981-1985 (shown in Row 6), but the debt-shock arising from the increase in interest rates hurt the slow-growing developing countries more than it affected the fast growing countries. It appears from the evidence that the success of the countries adopting outward-orientated trade strategies to promote manufactured exports is in part attributable to the export orientation imposing a discipline on the choice of economic policies (Krueger, p.110).

Table 1. Certain Economic Characteristics of Fast Growing Developing Economies and the South African Economy in the 1980s.

Row		Fast Growing Net Energy Importers	Other Net Energy Importers	SA
1	Exports as a Percentage of GDP (1986)	41	20	33
2	Exports of Manufactures as a Percentage of GDP (1980)[1]	24	4	11
3	Ratio of Gross Fixed Investment to GDP[2]	26,1	19,5	20,8
4	Ratio of Gross Savings to GDP[2]	21,1	11,2	23,0
5	Rate of Inflation[3]	10,8	34,8	16,0
6	Debt to GNP Ratio[4]	21,9	50,3	24,0

Notes

1. RSA 1985, Others 1980.
2. RSA Average 1984-1988, Others Average 1981-1985.
3. RSA 1984-1988, Others 1981-1985.
4. RSA 1988, Others 1984.

Sources

United Nations, 1987, Tables 2,3,4 and 5.
SA Reserve Bank, Quarterly Bulleting, Pretoria: June 1987, June 1990.

GROWTH POLICIES FOR SOUTH AFRICA

Several official reports have recognised that the impetus to growth of the South African economy provided by import substitution has been exhausted. Heavy reliance on gold (and primary exports) is also now seriously destabilizing the economy. Future economic growth for South Africa requires that exports must be diversified into manufacturing and expanded. In RSA in the 1970s, export incentives were introduced for the manufacturing sector, while the policy of import substitution was continued through the structure of import tariffs Recently Professor Merle Holden's research has revealed that this protection given to imports has been the equivalent of a net 34 per cent implicit tax on exports (when gold production is excluded from the analysis) (Holden 1990a). Holden's research also shows that over the period from the mid 1970s to 1983 the relative price of exports to non-tradable goods declined, and that the overvalued real exchange rate of the Rand severely discouraged production for the export market (Holden 1990b). It is not surprising therefore that manufactured exports have been slow to perform.

Moves to promote exports of manufactured goods have been made with the recent General Export Incentive Scheme. However, the excessive protection of the domestic South African market must also be addressed if successful export led growth is to be achieved. The scrapping of sanctions and the opening of markets in Africa will give the ideal opportunity for a push into export oriented growth of manufactured goods if the incentives are correctly structured by government. Even if other strategies provide a simultaneous impetus for growth (e.g. inward industrialisation to be discussed below), a successful export performance will be a necessary condition for growth in the long run, given the high propensity to import of the South African economy.

On the level of macroeconomic performance the need to raise the level of investment is clear for South Africa as it is a necessary condition for higher growth of output at a relatively constant capital/output ratio. For investment a climate of stability and confidence must prevail and there must be a commitment on the part of government to policies to foster economic growth. Prospects of lowering the capital/output and capital/labour ratios are not good in the medium term. The economy does not have access to large numbers of small entrepreneurs in labour intensive ventures who can rapidly begin to play a central role in the growth process.[2] Also the international and the South African experience shows that excessive ongoing use cannot be made of foreign savings. Borrowing from abroad can, however, provide the cushioning necessary for reviving a process of economic growth. Foreign borrowing can provide breathing space to revive domestic investment before domestic savings recover.[3]

Rapid export oriented growth will, however, have an adverse effect on the income distribution, in so far as it widens income inequalities between those employed in the modern sector and the poor.

The view has often been expressed in South Africa that the return to a path of rapid economic growth requires a reduction of the size of the public sector. A perusal of the intercountry evidence shows, however, that there is no significant correlation between the growth of GDP and the size of the public sector (The World Bank, p.52). Increased government expenditures will be necessary for the redistribution of social services in South Africa and will require an increase in the share of government expenditure in GDP. This expansion in spending will increase the size of the public sector deficit. How this is reconciled with broader macroeconomic policy, depends in part on the size of the deficit, the rate at which taxes increase, and the financing of the deficit. These issues must be carefully considered in relation to future policy choices, for the question of the sustainability of fiscal policy is an important factor in influencing the level of private sector investment, and ultimately the attainment of long run economic growth.

REDISTRIBUTION WITH GROWTH

Renewed investor confidence (once political stability is obtained), export orientated trade policies, and the relaxation of sanctions could lift the economy to a higher growth path, but the gains from high growth rates of employment will not trickle down immediately to the poor. Growth promoting policies must be complemented by a redistribution with growth strategy.

A redistribution with growth policy can direct some of the gains from growth to the lower income target groups using production sector and transfer strategies (McGrath, 1990, p. 104). In South Africa redressing the great shortfalls to blacks in pensions, educational, health, and housing services can provide the focus of such a policy of 'redistribution with growth'. A programme to increase agricultural output must form an integral part of such a policy. A move to deregulate the informal sector and small businesses and provide credit to small business has already begun and will also be an important component of the strategy.

PENSIONS, HOUSING AND EDUCATION

A rapid way of transferring purchasing power to the poorest black households and of attacking poverty will be to increase old age pensions. Establishing parity for all in the eligibility and amount of pensions would represent an important political gesture. A policy of provision of basic services and infrastructure in informal settlements has made a belated start and the new government can accelerate this programme. Government can also increase the supply of housing or subsidize housing loans. Such a policy would in effect be an inward industrialization policy in which housing and construction are the lead sectors. The new government should provide finance or subsidize loans, thereby building on the framework presently being established by the Urban Foundation and the Independent Housing Trust, rather than undertaking the construction itself. Where contracts are awarded, small businesses using labour intensive methods should be favoured, and regulations on the manufacturing of housing materials should be kept to a minimum to develop backward linkages into the informal sector. As an integral part of the programme a labour intensive public works programme could be used to develop infrastructure, similar to the programme in the 1930s to solve the poor-white problem. This public works programme should also be implemented in rural areas. The expenditures made in implementing the inward industrialization programme will have a low propensity to import, a low demand for skilled labour and a low capital/labour ratio, and the programme could provide increased employment on a vast scale. However, it would require good organization and planning as well as a sustained political commitment.

Dramatic increases in the educational attainment of the black population are needed if skill shortages are not going to become a major bottleneck to growth. Increasing the quantity and quality of black education will be politically imperative and will be a crucial element in the growth strategy.

COST OF ELIMINATING INEQUALITIES

Professor van der Berg has estimated the cost of eliminating inequalities under the extreme assumptions that racial gaps in current expenditure per head of population on pensions, education and health services are eliminated in a single year by raising standards to the level supplied to whites, and racial backlogs in the supply of housing to the poor are eliminated over a decade. To achieve parity at this rate social spending in these areas must increase annually to over 35 per cent of the 1986 level of GDP. The level of government expenditure, holding other expenditures constant, would have to rise to over 50 per cent of GDP. This is simply not attainable (Van der Berg, pp. 72-86).

However, less ambitious programmes can be introduced, and levels of expenditure can be held back by requiring those with higher incomes to pay for the elements of services which are not essential, or for the supply of services far above the average level.[4] Charging for higher quality services will in itself significantly redistribute real incomes and patterns of demand for educational and health services. There is also scope over time for curtailing (and reducing) the growth of government expenditure on administration and defence, allowing for a growth in necessary economic services without any other additional increases in the level of total government expenditure. Realistically my estimates show that an egalitarian supply of educational and health services, basic housing provided over a decade, and pensions can be attained by increasing total government expenditure by approximately 35 per cent above its present level.

SIMULATION OF GROWTH PATH WITH REDISTRIBUTIVE GOVERNMENT EXPENDITURES.

A simulation model can show some of the macroeconomic constraints on growth policies consistent with rising government expenditures. We assume a growth rate of 5 per cent of GDP on a base year of 1989. The simulation is conducted in constant 1989 prices. The necessary level of investment is determined from historical data, consumption is assumed to rise in 1990 by the full increase in expenditures on services and pensions and htereafter at 6,5 per cent per annum; the value of exports of minerals and agricultural goods remains fixed, but exports of manufactured goods increase at 7 per cent per annum for the first 5 years (sanctions are assumed to have been ended), and 10 per cent per annum thereafter. Imports are a constant 30 per cent of GDP. Government expenditure is assumed to be increased by 7 per cent per annum for a period of 5 years, and the full increase is allocated to the supply of education, health, housing and pensions; increased in the supply of the necessary economic services are assumed to be found by reducing other expenditures. The tax regime is unaltered and government revenue grows at 5 per cent per annum and the exchange rate of the Rand is assumed to be fixed. Table 2 shows the path of the major macroeconomic variables through the year 2000.

Table 2 Simulation of the Growth Path of the South African Economy 1990-2000 under the assumption of a Post-Apartheid Regime.

Row	PER CENT PER ANNUM	1990	1994	2000
1	Growth rate of: Gross Domestic Product (Y)	5	5	5
2	Investment (I)	16	5	5
3	Government Expenditures (G)	7	7	0
4	Exports (X)	2,3	4,3	5,3
5	Gross domestic Expenditure	11,3	4,6	4,9

ANNUAL VALUE (CONSTANT 1989 PRICES)

Row					
6	Y	232676	244309	296960	397955
7	(G_1-G_{1989})	–	4563	23238	26238
8	(G–Taxes)/Y	1,6	2,6	4,4	-3,4
9	G/Y	28	29	31	21
10	Deficit on Current Account of Balance of Payments	4097	-5499	-14038	-20726
11	Foreign Debt/Y	24	25	35	50

The significant features shown in Table 2 are:

(1) Despite the rapid rise in government expenditure the share of government int GDP does not rise to an unacceptably high level, not exceeding 31 per cent (shown in Row 9), and the ratio of the deficit before borrowing to GDP (Row 8) is also not a problem rising to 4,4 per cent in 1994.

(2) The increased level of expenditure needed to bring about a substantial level of equality in social services is attained within 5 years (Rows 3 and 7).

(3) The current account of the balance of payments is in deficit as soon as economic growth accelerates (Row 10) and foreign borrowing is needed to make up the shortfall. Huge capital inflows are required in the first few years, and the ratio of foreign debt rapidly rises from its present level of 24 per cent to over 35 per cent of GDP (Row 11), but even this proportion is well below the current levels of foreign debt of many semi-industrialized economies. A 'marshall-aid' plan without an obligation to pay back grants would be most desirable but is not absolutely necessary. Without the capital inflows however, the growth process has to be halted quite soon because of balance of payments problems, even if the Rand inevitably depreciates.

(4) Through time the propensity to save falls as a consequence of the assumptions of the model. This draws attention to the need for policies to increase domestic savings, hold back money wage increases, and limit the growth of other areas of government expenditure. The simulation does, however, show that the growth rate of the economy and government expenditure can be stimulated dramatically without the burden of foreign debt becoming intolerable in the medium term.

(5) At the growth rate envisaged sectoral bottlenecks, rising food prices, and skill shortages may well cause inflation and defeat the goals of the policies. The more time the economy is given to grow onto its higher path, while at the same time expanding the supply of skills, exports and food, the greater will be the economic chances of success. This also means that it will be preferable to defer increases in government expenditures on social services until the growth process is well underway, but this level of restraint may not be politically feasable.

Fortunately the involvement of the IMF in granting loans to South Africa, which is very likely under a new government, will require a commitment to monetary and fiscal discipline. If the policies outlined above are to succeed in South Africa, strict fiscal and monetary discipline will have to be applied and real interest rates cannot be allowed to become negative because this would discourage the growth of personal savings.

The simulation which was outlined allowed very rapid growth in domestic expenditure, arising both from renewed investment, increased consumer demand and government expenditures for redistribution. A slowing of the initial pace of redistributive expenditures, for say the first 5 years of economic growth, would impose much smaller strains on demand and the balance of payments.

STATIC REDISTRIBUTION

In the analysis thus far we assumed that the tax regime had not been changed and that policies for asset redistribution were not implemented. Pressures are likely for higher rates of taxation of companies and high income earners and for asset redistribution ......

TAXATION OF INDIVIDUALS AND COMPANIES

Policies of static redistribution through the tax system appear at first sight to offer possibilities for redistribution. There is, however, much evidence showing that the tax system is a weak redistributive device and that government spending can have a greater impact. Many studies have shown that tax systems often lead to an incidence which is roughly proportional to income and that the redistributive power of taxation is small and can be potentially destructive of economic growth (McGrath 1990, p. 102).

In South Africa the Margo Commission recently investigated the tax system and reported in 1987 (Margo Commission). Its recommendations were in the main in line with trends in tax policy internationally, e.g. recommending a shift from sales taxation to value added taxation, a simplification of the tax system of individuals with fewer marginal rates, exemption of dividends from personal income taxation, and neutrality between the top marginal rate applicable to individuals and companies. Government has agreed to implement many of the Margo proposals, and this policy should be pursued as the likelihood of improving the income distribution by tinkering with the tax system does not appear to be great.

The prescription that the tax system should not be made more progressive to improve the distribution of incomes may seem extremely conservative. However, it must be seen against the changed distribution of the benefits of government expenditures which have been discussed above – as white households will be required to pay a much large proportion of the cost of education, health and many other services, and blacks will receive a much greater level of service. Set against an unchanged tax burden, these changes will make the tax and expenditure system as a whole dramatically more progressive.

The ownership of private wealth and the income from that wealth is an important influence on the unequal racial distribution of incomes, and will be a force working against equalizing tendencies in the labour market, as savings do not become significant until relatively high levels of income have been attained (McGrath, 1982, pp. 46-49). The ownership of private wealth in South Africa also reflects accumulation from the historical inequalities of apartheid.

Policies which might be contemplated to redistribute privately owned wealth, following the lines suggested by Meade for the UK, might for example include:

(i) a radical reform of death duties, turning them into a progressive tax dependent upon the total amount which any beneficiary had received by way of gifts or inheritance
(ii) the extension of the death duties to cover gifts inter vivos
(iii) the introduction of a progressive annual tax assessed on capital wealth (Meade, pp. 75-76).

Programmes of wealth taxation have rarely been implemented with any success. One problem for taxing net wealth is the international mobility of financial capital. Another is that the base of wealth taxes does not relate to actual transactions. How is the annual value of net wealth calculated? Yet another problem is that wealth taxes can distort investment away from productive assets. Such practical considerations have resulted in very few countries introducing taxes on the value of the net wealth of the personal sector.

The Margo Commission was against all forms of wealth taxation in South Africa (Margo Commission, p. 319). It did, however, propose an estate duty at a flat rate of 15 per cent to be levied on the dutiable value of deceased estates which exceeded R250 000 and a 15 per cent flat rate capital transfer tax. Government implemented these proposals but increased the exempted dutiable value of deceased estates to R1m, thereby effectively abolishing the estate duty. Estate duties imposed at a moderate rate are unlikely to have adverse economic effects and will not significantly affect patterns of savings and investments. Their potential for raising revenue is limited but there is a case for a reconsideration of the estate duty.

ASSET REDISTRIBUTION: SOCIALISM AND NATIONALISATION

Radical prescriptions for asset redistribution include full Central Economic Planning and socialism; nationalization of the commanding heights of the economy; the dissolution of the larger South African conglomerates; and payment of compensation for historical economic injustices. The widely acknowledged failures of socialism in Europe and Africa should be adequate evidence that such experiments should be ruled out completely from the options for South Africa. A strong commitment to the market system and private enterprise is needed to produce an efficient economic system in the post-apartheid era.

A less radical alternative, still socialist in flavour, it to nationalize the 'commanding heights of the economy', interpreted for RSA as the largest six conglomerates. On the employment front skill shortages and education will increasingly become the most important constraints on black advancement within the internal labour market of large companies – nationalization *per se* will not solve this problem. A preferential treatment of blacks in the labour queue of 'the commanding heights' will also not improve the incomes of the poor and may indeed worsen the distribution of income by simply increasing the incomes of blacks with skills and with access to patronage.

If the purpose of the nationalization is to increase government revenue, the surplus generated in the 'commanding heights' can be extracted as efficiently by taxation, as has already been shown in the case of the fold mines by the present government. Nationalization, which replaces corporate management by public sector bureaucracy with a 'soft budget constraint', will result in a drop in efficiency. Threats of nationalization will depress confidence and investment and produce capital flight. The net consequences of nationalization will surely be adverse in terms of the needs of economic growth and income distribution.

CONGLOMERATES

The next radical prescription to be discussed, recently made by Mr Stephen Gelb, is to break up the conglomerate ownership of industry in South Africa.[5] The proposal arises from Gelb's analysis of the low levels of investment in South Africa and its increasingly capital intensive nature, which he attributes to the financial linkages which exist within the conglomerates themselves and their linkages with financial institutions. Therefore, the argument goes that dissolution of the conflomerates will be favourable for investment and which can also be directed towards less capital intensive enterprises.

A counter-argument which in my view is just as plausible, is that government might find the existence of the larger conglomerates convenient, as a way of implementing its policies. An alliance with them, through government representations on their boards, would enable the state to exercise enormous muscle in influencing patterns of investment. Furthermore, the large groups may be necessary for a major dive into international markets for manufactured exports. Certainly the dissolution of the conglomerates would not increase competition in the industrial sectors where often the small South African market and the need for economies of scale cause substantial concentration to occur at the industry level.

An alternative view on the conglomerates is that they can be made into a very efficient channel for the financing of industry and that they should be used constructively for encouraging investment, building on existing institutions, rather than trying to develop new ones. One possibility might be to encourage them to stimulate subcontracting to small business, using their financial muscle to finance such ventures. The post-apartheid government might even require the conglomerates to allocate a proportion of their equity to this goal. Such a strategy would enourage small business and be good for income distribution, while having a beneficial effect on employment because of differences in wages between the formal and less formal sectors in industry.

At present socialist rhetoric is causing great uncertainty, undoubtedly causing some capital outlfows and retarding potential capital inflows and investment. This uncertainty will continue until the intentions of the major political actors about economic policy have been clearly spelled out, and have credibility.

REPARATIONS

Reparations have also been mentioned although to my knowledge the amount to be paid has never been specified, nor has the theoretical basis for determining the claim been explained. How much compensation could be demanded? If we assume that all racial groups had been able to contribute equally to the economy in the absence of apartheid, then one possible way of estimating the income loss to blacks is as the difference between their actual share of income and their expected share, i.e. their share of population. The reparations estimated in this way will be may overstated, and the implicit assumptions made are grounds for intense argument. However, if we accept the procedure as a basis for valuation, then it can be estimated that between 1948 and 1987 that there was a shortfall in black incomes of some R2500 billion when expressed in 1989 prices – which is more than 11 times the 1989 level of the GDP.

The extraction of reparations on this scale from companies and white households, even if the reparations were spread over the next half century, would have a catastrophic effect on investment, entrepreneurship, and savings, the supply of skilled white workers, the managerial class, and economic growth and ultimately the capacity to pay the reparations and is not feasible. The issue is raised in order to stress the need to focus economic policy on creative but workable solutions directed towards improving future economic welfare, rather than dwelling on past injustices which cannot be remedied.

WAGE POLICY

Economic analysis predicts that where redistributive measures simply boost nominal incomes, inflation and balance of payments crises will rapidly result. Further, large real wage increases can only reach the segment of the population working in the modern sector, bypassing groups in poverty, and possibly exacerbating the problem of creating employment growth by forcing firms to substitute capital for labour.

The policies used by white workers to improve their economic status after the 1930s, whereby skilled labour was kept scarce, and unskilled white wages were raised by government policy, will be quite inappropriate in a new South Africa. The ends of economic growth and redistribution through the growth process will be best served if labour markets are allowed to function as efficiently as possible. Minimum wages above the market clearing level will lead to the creation of an urban elite in paid employment, sheltered from wage competition from the unemployed, and will bias the economy towards capital using processes. Government will have to be especially tough with the civil service which will seek economic rents in the form of higher wages for political support as rapid real wage growth in the government sector will rapidly erode the possibility of long term economic growth. In the government sector the payment of wages related to market rates could lower the cost of many services supplied. A successful redistribution with growth strategy will require standards of industrial and wage discipline which preclude the political tactics which the unions have developed in their stuggle against apartheid, e.g. stay-aways, ongoing industrial sabotage, and political collective bargaining. □

NOTES

1. Using the rankings of the United Nations International Comparison Project.
2. The position is similar to the case of Korea, where there was a shortage of managers and entrepreneurs willing to undertake the development of export related projects. By contrast the Taiwanese economy was able to use the potential of a large number of entrepreneurs (Park, p. 118-120).
3. For example, in Korea during 1980-84, Turkey during 1980-82, and Indonesia during the mid-1960s generous capital inflows were received as part of their adjustment process to allow for economic growth from a debt crisis (Collins, pp. 105-106).
4. On average whites would still receive a 60 per cent subsidy on the cost of education and health services.
5. This proposal was made in an address by Stephen Gelb on 'Economic Structures for the Post-Apartheid South Africa', Natal Branch of the Economic Society of South Africa, Durban, 5 June 1990.

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Economic Policy, Growth and Equity.

Democratic Party Economic Policy Manifesto

"A SOCIAL MARKET ECONOMY"

The Democratic Party seeks to establish a Social Market Economy which respects the principles of private ownership and incentives and which offers rewards for entrepreneurs.

It recognises the existence of unacceptable wealth, income, opportunity and skills gaps and the necessity of giving urgent attention thereto, and to the elimination of racial discrimination in the provision of social and State services.

The objective of the policy is to eliminate poverty and provide adequate rising living standards for all.

The Party therefore commits itself to the fundamentals of a social Market Economy.

1. Political Freedom is an essential ingredient for the operation of a just economic system.
2. There must be true equality of opportunity for all citizens including that of acquiring and owning property, so that they may enter the economic system on an equal footing. This will entail:

(a) major development programmes to address existing poverty, inequality and distortions in the economy;
(b) the absence of discriminatory laws and practices on the one hand and the provision of non-discriminatory State social services;
(c) making racial, religious, language and similar constraints on economic activities unconstitutional;
(d) the provision of equal access to:
(i) education of the same quality for all, as well as the opportunity of education for disadvantaged adults;
(ii) reasonable health facilities;
(e) improving the quality of life so as to provide the basis for stability.

3. The wide gaps in income and wealth in South Africa require special corrective action to enable those in a disadvantaged position to better their situation. This aim can best be achieved by education, training and, where appropriate, corrective action in respect of such fields as land resettlement, housing and other socially