

This and the articles which follow are part of a series of "Policy Suggestions" for the future, presented to the Liberal Democratic Association, which Reality will publish, hoping they will generate discussion.

SUGGESTIONS FOR AN ECONOMIC POLICY FOR THE FUTURE

Presented to the Liberal Democratic Association by
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The LDA is concerned with propagating the values of western liberal democracy in South Africa. These values would include a Bill of Rights, the protection of minorities, an independent judiciary, freedom of political association and of the press, academic freedom, and universal adult suffrage. On these issues there probably would be little disagreement among members, but this unanimity is unlikely to obtain with respect to an economic system appropriate for a non-racial, post-apartheid South Africa.

ALTERNATIVE ECONOMIC SYSTEMS

In practice there are only two broad types of economic system in the modern world, namely, the market and centrally planned economies, both of which have a number of variants.

THE CENTRALLY PLANNED SYSTEM

The centrally planned system involves tight State control of the economy, including ownership of almost all enterprises. It is perhaps not surprising that it exists only in countries with a totalitarian political system, and as such it is the antithesis of liberalism.

Central planning as an economic system is now widely regarded as having fundamental flaws and, with few exceptions, countries which have adopted the system are embarking on reforms to systemic structures and economic policies. The Soviet Union is a case in point. According to one of the foremost authorities on Eastern Europe, the Soviet economy is characterised by:

- (i) slow growth,
- (ii) technical backwardness,
- (iii) stagnating or near-stagnating levels of household consumption, and
- (iv) a worsening social environment of rising infant mortality rates, falling mean life expectancy and increased corruption.

This situation has prompted growing criticism within these countries of the performance of central planning — the pattern of industrialisation (with its reliance on heavy industry); the continued weakness of agriculture and the treatment of rural peasants; the quality of education, health services and housing; the recurring shortages of consumer goods, and so on. It is particularly interesting to note that some of the elements hitherto regarded as critical to a functioning socialist society have been re-examined.

First, the degree of "wage levelling", i.e. wage equality, is now regarded as a major cause of low productivity and

inefficiency. Efforts are being made to differentiate wages according to performance, particularly so as to stimulate managers and those individuals with professional qualifications. Income inequality, incidentally, has been hidden in the statistics, party functionaries (**nomenklatura**) receiving many perks as well as preferential access to consumer goods and services.

Second, planning itself is being questioned. The data demands of central planning are tremendous and, for this reason, Soviet econometricians put great faith in computers. But even computers have failed to remedy the defects such as lack of co-ordination and inadequate data flows.

Third, State ownership is under attack. The concept of social ownership is being reinterpreted and increased roles are being accorded to co-operatives, individual and family enterprises, and joint ventures with multinationals.

In short, it has been found that the State cannot do everything in the economy. Thus the non-State sector is being extended and in the State sector certain decisions are being decentralised to the enterprises themselves. However, this is not to say that leaders such as Mr Gorbachev are wishing to dilute the political supremacy of the Party. Interference from the Party has been one of the main factors in the failure of the Yugoslavian self-management system, and the ability of bureaucrats to sabotage reforms is one of the chief obstacles to reform in the centrally planned economies. The economics profession in Eastern Europe today concedes the superiority both of the market mechanism with regard to the allocation of resources and of a competitive private sector in ensuring efficiency, innovation and production. Thus a senior Soviet economist recently wrote that "until our economy is run by the laws of the market . . . all our efforts are doomed to failure or at least to half results".

The debate in the centrally planned economies is not about **whether** they ought to reform but about **how** to reform. If this system, then, is no longer regarded as a desirable model, what of the market economy?

THE MARKET ECONOMY

The market economy has shown itself capable of co-existing with many different political systems ranging from authoritarian to the liberal-cum-social democracies of Western Europe, North America, Australasia and Japan. It is surely from these democracies that the LDA should draw its inspiration.

The mix of public and private ownership of resources in these countries varies, but in all of them the market mechanism plays a prominent role in price setting and resource allocation, while the State's main activities are to provide public goods and services (education, health, transport, etc.) on an equitable basis to all strata of society, and to formulate macro-economic policies conducive to

wealth creation and economic growth. In comparison with centrally planned economies, the market system has proved itself more efficient in terms of resource allocation as well as innovation, technology, productivity and the satisfaction of consumer demand. Some types of market economy, however, are characterised by high degrees of income and wealth inequality, and it is this perceived distributional weakness that renders the system open to allegations of exploitation and callousness. Yet in democracies the extent of inequality is not necessarily greater than in centrally planned economies; for example, one study found the most egalitarian countries to be Australia and New Zealand (market), and Hungary and Czechoslovakia (centrally planned).

LIBERALS IN SOUTH AFRICA

A policy for a liberal economic system in South Africa would have to consider the appropriate mix of public and private participation. Liberals will not be unanimous on this issue, and could perhaps be divided into two principal groups, namely, those who favour a libertarian economic system and those who would place greater emphasis on distributional aspects. This second group could find its model in the social market economy of West Germany (a system introduced by a conservative, not socialist, government but one which has received widespread support across the political spectrum in that country) or in the social-democratic paths of Sweden or Austria.

No country conforms to a "pure" libertarian model. Contrary to a widely-held South African view, for instance, the success of the East Asian "newly industrialised countries" is not due to their governments allowing the market mechanism virtually unfettered reign. In all these countries, government intervention was of crucial importance in stimulating economic growth, the important point being that this intervention was sensible and competent. The aim was to stimulate companies to become internationally competitive in the shortest possible time after an initial period of protection and lame ducks were not tolerated. A social democracy such as Sweden has followed a similar policy.

Proponents of the libertarian economic system in South Africa are perhaps best exemplified in the Free Market Foundation, with influential business and academic support. However, some economic libertarians could not be considered to be political liberals. This school argues for a *laissez faire*-type economic organisation with a minimum government intervention. Its supporters favour:

- deregulation,
- privatisation of local, provincial and central government functions wherever possible,
- drastic reductions in taxation.

The function of government is to manage the economy through macro-economic policy in such a way that it maximises investment, output and economic growth. This emphasis on growth and efficiency, they argue, will lead to an improvement in the economic welfare of all strata of society. In order to ensure that all individuals have access to certain minimum standards of, for example, food and education, it has been proposed that a voucher system be operated.⁵

Whilst elements of what the free-market liberals advance are consistent with the views of the second (pragmatic) group, this group is less doctrinaire than the former. This

school is more explicitly concerned with economic justice, and in particular with rectifying the unequal life chances and standards of economic welfare which have accrued to the different race groups in the past. It would therefore favour a redistribution-with-growth approach, with strong and imaginative government intervention in favour of the least well-off groups in society. Both groups would have as a goal the attainment of a prosperous and affluent society, for it is in such a society that the conditions conducive to the freedoms which liberals espouse (and which were referred to in the opening paragraph of this paper) are most likely to prevail.

THE ECONOMIC CHOICE FOR LIBERALS

Despite the theoretical arguments which may be advanced by libertarian economists, it is doubtful whether the type of free-enterprise system they advocate would be realistic in a post-apartheid South Africa. Any government, for the sake of its own survival if for no other reason, would be compelled to play an interventionist role in economic affairs in order to reduce the unjustifiable gap in the inter-racial economic welfare and wealth ownership as well as to upgrade the deplorable state of education, housing and other social services for the presently disadvantaged groups. This interventionist role would be greater than that envisaged by most free marketeers, and for political reasons it would be difficult for a government openly to follow a free-enterprise path. This does not mean to say that markets need not have a vital role in the economy, but it does mean that for the LDA more explicit attention should be devoted to distributional issues.

A necessary condition for the attainment of prosperity is a high rate of economic growth. In South Africa, however, there is an additional factor which lends even greater weight to the importance of economic growth in promoting redistribution. This is the demographic factor: the growth rate of the White population (the most affluent group) is stagnating and this means that, in any period of rapid economic growth, Whites will become decreasingly able to provide the skilled and highly paid tasks required. Thus, Black groups will be thrust into such positions, their vertical occupational mobility will be facilitated, and with it a more equitable inter-racial distribution of income would emerge. This trend has in fact operated since the late 1960s — the African share of personal income increased from approximately 20 per cent in 1970 to 25 per cent in 1975 and 29 per cent in 1980; the White share of total disposable income declined from 66,7 per cent in 1972 to 55,5 per cent in 1985; the poorest 40 per cent of the population increased their share of total income from 3,9 per cent in 1970 to 7,6 per cent in 1980; mean real earnings for Africans increased from R410 to R763 between 1971-1979 compared with a fall for Whites over this period; and African real per capita incomes rose from R64 in 1970 to R108 in 1980. More recent figures show that the personal disposable incomes of the three Black groups increased far more rapidly in real terms than did that of Whites between 1972-1985; in fact, in the 1980s White incomes have fallen. It should be noted that these trends occurred during a period of slow economic growth and that they would be accelerated if the growth rate were to be increased.

Both free-market and pragmatic liberals, therefore, should support policies which promote growth. Equally, both must find the presence of absolute poverty unacceptable. Although relative poverty must be tackled in the longer

term, the present high levels of absolute poverty (based on some notion of a minimum subsistence level or similar measure) require immediate attention. However, the two groups would not see eye to eye on the policies to be adopted to achieve these goals.

LDA POLICY

The purpose of this section is to discuss some of the issues which are likely to be among the most controversial in future.

(i) State or Private Ownership

There is little doubt that the question of ownership of enterprises and land will be a major issue in post-apartheid South Africa. The Freedom Charter mentions the nationalisation of mines, banks and "monopoly" industry, but no specific commitment to such action is contained in the recently published guidelines of the ANC. Nevertheless, state control of the so-called "commanding heights of the economy" is often mentioned as a desirable goal in the literature, reference being made in particular to the largest half dozen conglomerates which are alleged to represent "monopoly capital". The veracity of such allegations requires careful consideration since many of the operations of these conglomerates occur in highly competitive industrial sectors, and the nature of and alternatives to nationalisation should be thoroughly investigated.

Nationalisation could be accomplished in various ways, ranging from minority shareholding by the State, to either majority shareholding or complete ownership but without taking managerial control, to total ownership and management. One alternative to nationalisation would be to enforce the provisions of the Maintenance and Promotion of Competition Act and break up such operations of the conglomerates as do, in fact, constitute monopolies. More important, the costs and benefits of State as opposed to private ownership require close examination. The main interest of the State in a liberal economic system should be to create a climate favourable for the efficient operation of enterprises, to ensure that enterprises are profitable and that they contribute to state coffers by way of corporate taxes. Judging by the record elsewhere, nationalisation need not necessarily have beneficial effects on government revenue, and it could have adverse effects on investor confidence, economic activity, and institutional as well as small investors.

(ii) Land

In some countries which appear most successfully to have followed a redistribution-with-growth policy, substantial land reform played an important role. This was the case with both Taiwan and South Korea. The question of land ownership is an emotional issue which will have to be addressed by pragmatic liberalism.

Statistics on land use are poor but it appears that about 60 per cent of the total area of the country is in the hands of private White owners. This state of affairs could be redressed in several ways.

First, White-owned farms where the owner is absent could be expropriated and redistributed, or the number of properties per individual owner could be restricted and the land thus released could be distributed.

Second, any farms offered for sale could be purchased by government and redistributed, or the government could in

any case follow a programme (perhaps low-key) of land purchase.

However, if redistribution is accompanied by falling levels of output, society will not gain. Agricultural output (especially food) must be maintained and expanded. This is an essential requirement for the future economic well-being of South Africa for reasons concerning the balance of payments. With shrinking ore reserves, gold mining cannot remain the prime earner of foreign exchange in the long term. At the same time, demographers project the population to grow to between 58-68 million by 2020, and any failure on the part of food supplies to feed this population would require imports. The combined effect on the balance of payments of declining gold exports and the necessity to import food would be severe. It is vital, therefore, that the land be farmed efficiently and productively. Many White farmers today are not making profits, and incomes vary immensely depending on activity, market prices and climate. The number of full-time farmers has fallen from 116 000 to 65 000 in the last 30 years, and 30 per cent of the farmers produce 80 per cent of gross agricultural output. In 1982 the average net income per farming unit was R40 300, but there was a range from R8 000 for karakul farmers in the north-western Cape to R104 000 for maize farmers in the western Transvaal. The possibility of redistributing land is clearly greater in intensive than in extensive farming areas.

An important point to consider is that the demand by Africans for land may well be in urban rather than rural areas, i.e., for residential, not agricultural, purposes. The majority of Africans will soon be urbanised and the proportion of landholders committed to farming, full-time, commercial farming could well be lower than one might expect. Thus the granting of freehold tenure in urban areas and the provision of normal mortgage bond financing would be key aspects of economic policy.

(iii) Equality

In addition to offering non-discriminatory access to education, health, other social services and employment, and attacking absolute poverty, a liberal economic policy should promote greater equality of wealth ownership and a substantial reduction of income differentials along racial lines.

Greater equality of wealth ownership could be facilitated by promoting home ownership in the present townships. Continued economic growth would of itself reduce inter-racial income disparities since, as explained earlier, it would necessitate greater vertical mobility and hence higher-income positions for Blacks. The skilled-unskilled wage gap, however, would be difficult to bridge. Skilled wages might well be artificially high because of the scarcity rent enjoyed by Whites as a result of past discrimination in employment and attainment of skills, but even in a post-apartheid economy the question of international mobility for certain skills would remain. On the unskilled market supply greatly exceeds demand; this is not surprising given the Third World demographic profile. Labour is the abundant factor of production and labour-intensive methods consequently are desirable. If the State sets unskilled wages above market-clearing levels, not only are firms encouraged to use capital-intensive techniques but international competitiveness might be reduced. However, if unskilled wages are left only to market forces, they may well be below poverty levels. The role of minimum-wage

legislation would require careful consideration in the light of South Africa's position as a Third World-type economy.

(iv) Taxation

It is clear that greatly increased demands will need to be made on public revenue in order to remedy the effects of past policies in terms of which so many services have been supplied at widely different levels to the different race groups. At first glance, it would seem that this would require increased rates of taxation, especially among higher-income groups. Foreign borrowing could provide the wherewithal for capital projects but it will have to be repaid and these projects are not in the productive sectors of the economy. However, the situation is more complex than this, and studies recently undertaken for the World Bank have shown a close correlation between levels of taxation and economic growth. Generally, the lower the rates of taxation the faster the rates of economic growth and the greater the amount of tax revenue accruing to government. This appears paradoxical, the explanation being that individuals are then able to increase both consumer spending (which increases sales and therefore employment) and savings (which provide investment funds for expansion programmes) while firms are left with increased funds to reinvest. Firms expand, new ones are established, more jobs are created and the tax base is widened, thus resulting in more, not less, tax revenue to government.

Now, South Africa is one of the most heavily taxed countries in the world, and there is a growing view in business circles (supported by libertarians) that these high rates are counter-productive and that expansion cannot occur without a lowering of tax rates. An econometric study submitted in evidence to the recent Margo Commission has revealed the benefits to be derived from lowering taxes. It might be argued that this would merely widen existing inequalities between rich and poor, but the poor would also have more disposable income to meet basic needs and get away from absolute poverty and, as pointed out earlier in this paper, the immediate concern should be with absolute rather than relative poverty. If these studies are correct, lowering of tax rates should not be inconsistent with the policy goals of pragmatic liberals.

One aspect of taxation, however, in which there is scope for raising the level is that of estate duty (or inheritance tax). South African levels are very much lower than those obtaining in, for example, the United States.

(v) Employment

The unemployment rate is high, and job creation will be a major challenge to any future government given the high rate of growth of the labour force. This is another reason for maximising the rate of economic growth and for removing factor-price distortions. However, it may well be that a nationwide public works programme might be required for a long period and not merely for the reduction of cyclical unemployment. Such a programme would have to be well planned and should not be a substitute for the encouragement of productive activities elsewhere in the economy. The jobs created should be temporary and the wages kept below returns to full-time employment, while care should be taken to keep the bureaucratic apparatus to a minimum.

(vi) Education

Primary education is now recognised by the World Bank and many prominent writers on the subject as the most important level insofar as its role in economic development

is concerned. A liberal education policy thus should make compulsory universal primary education its priority. This could impose an enormous burden on the exchequer, and it might well be that post-primary education could not be free. For the sake of economic efficiency and international competitiveness, high professional standards will have to be maintained in tertiary institutions, and technicians would have an enhanced role to play in providing "intermediate-type" training in the business sciences as well as in engineering and other technical fields. The emphasis in tertiary training should be on these skills as they are directly related to the sorts of jobs most upwardly mobile Blacks would fill in periods of rapid growth.

(vii) Health

Health care is another field in which enormous gaps in standards for the different race groups are found. Liberals should find it unacceptable that low-income households are unable to afford health care. Government hospitals should continue to treat the very poor for no fees, and an intensive effort should be made to train para-medical personnel to undertake simple curative as well as preventative tasks and to staff mobile clinics.

(viii) Deregulation

Deregulation is a major way in which government can intervene sensibly to stimulate economic activity. In South Africa this is a particularly important issue — many fields are grossly over-regulated and the abolition of controls in transport, housing, trading and industry should stimulate Black entrepreneurship. The small business and informal sectors would both benefit, with resultant boosts to Black employment and income-earning capacity.

(ix) Privatisation

Privatisation is a somewhat more difficult issue and cannot be discussed in any detail here. The historical duty of the state has been to ensure that basic infrastructure and hospital services are provided for disadvantaged individuals, groups or regions, and privatisation should not relieve it of this obligation. There are indeed certain functions carried out by various tiers of government which could be transferred to the private sector and which would not be inconsistent with pragmatic liberalism. Garbage collection is one such function, and the list could also include certain modes of transport (road and air) and telephones. In the case of road transport, for instance, equity considerations could be catered for by direct subsidies to private transporters operating on uneconomic "social" routes under contract to government (as occurs in Botswana). Escom has been mentioned as a candidate for privatisation but electricity is perhaps the most vital element required for the improvement of rural life and also presumably for life in informal urban settlements. It is probably best supplied on the same basis as a public good in an unequal society such as that of South Africa.

(x) Macro-economic Policy

Among the macro-economic policies which have been shown to have been successful in various countries, and which are today generally recognised as necessary in facilitating economic growth, are:

- realistic exchange rates
- positive real interest rates
- market prices
- direct as opposed to indirect subsidies.

A number of African countries, for example, have in recent years improved food output by increasing the prices paid to farmers and abolishing the artificially low prices of a cheap food policy. These policies should be encouraged by the LDA.

CONCLUSION

The precise nature of a post-apartheid economic system will continue to be a topic of energetic debate. At present

there seems to be some consensus that the economy will be mixed; this point has been made by the ANC in its recent guidelines, by Mr Slovo in an interview in 1986, and by Soviet spokesmen on Southern Africa. The precise details of the mixed economy, however, are by no means agreed upon, and it is the role of the LDA, as a liberal think-tank, to contribute as dispassionately as possible to the examination and clarification of the key issues, some of which have been mentioned in this paper. □

by Douglas Irvine

CIVIL LIBERTIES

1. CIVIL LIBERTIES

Civil liberties are freedoms which are, or ought to be, protected by law.

To extend and defend civil liberties has been a major concern of liberals everywhere and also in South Africa.

2. CIVIL LIBERTIES AND HUMAN RIGHTS

Human rights are moral rights based on the respect for persons, their dignity, their freedom, their needs, their claims and their just entitlements.

Civil liberties are an important part of the broader range of human rights, which include the right to life, the right to property, the right to a fair trial, political rights, and rights to material and social security.

Civil liberties are concerned with certain specific **freedoms from** restrictions, constraints or interference which affect people's **abilities** to participate actively in social, economic and political life.

3. THE FREEDOM OF INDIVIDUALS, GROUPS AND OTHER BODIES

Liberals believe that freedom is necessary for the active development of human potentialities in the lives of individuals and societies — the freedom of persons acting individually or together on a voluntary basis.

Fundamentally persons should be free to manage their lives as they see fit. They must be accorded the respect due to adults, not treated as children or slaves.

Liberals therefore make an initial presumption in favour of liberty.

Any restrictions on the liberties of persons must be justified. The onus for justifying such interference rests with those who seek to limit freedom.

Liberals are not committed to extreme individualism, and recognise the need to reconcile liberty with other claims and values, such as the respect for human welfare.

Liberals therefore need not be dogmatic about state intervention in the political, social and economic spheres.

Liberals are, however, utterly opposed to any ideology or policy (right or left) which makes society or the state everything, and the individual nothing.

4. PROTECTION AGAINST THREATS TO FREEDOM

Civil liberties protect individuals, and groups or corporate bodies (such as churches, universities, or trade unions) against interference in the conduct of their affairs.

Civil liberties enshrined in law thus protect people by checking the actions of other individuals, groups, or the public authorities.

Civil liberties involve more than the rule of law, but the rule of law is fundamental to the preservation of civil liberties.

Liberalism has a well-justified suspicion of power — “all power tends to corrupt, and absolute power corrupts absolutely”. The protection of civil liberties checks the scope of corrupt, oppressive, or arbitrary power.

5. MAJOR CIVIL LIBERTIES

- (i) Personal freedom and freedom of movement — the right to come and go freely in one's own country is the most fundamental of the civil liberties.
- (ii) Freedom of religion and belief — inseparable in practice from freedom of speech, the freedom to express one's beliefs.
- (iii) Freedom of expression — freedom of speech, freedom of the press.
- (iv) Freedom of association — freedom to live with, to marry, to work with, and form organisations with other people of one's choice.

None of these liberties constitutes an absolute right. It may be necessary to limit these rights and liberties in various ways and in certain circumstances. However, any limitation has to be justified, with reasons given, and the need for such limitations demonstrated.

6. CIVIL LIBERTIES AND POLITICAL FREEDOM

Civil liberties are an inescapable prerequisite if the freedom to vote, in free elections, is to be effective.

7. CIVIL LIBERTIES AND DEMOCRACY

An open democratic society must be based on the protection of civil liberties.

Civil liberties must be protected even against democratic majorities — because majorities too can be oppressive or tyrannical in relation to minorities. A majority, no matter how large, is after all not the whole of the “people”. □