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# Competing Paradigms: Socioeconomic Development in South Africa

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Pieter le Roux

## I. Introduction

The transition to a democracy in South Africa has often been called a political miracle. Many, particularly those on the left, were surprised that F.W. de Klerk acquiesced before his regime had been militarily defeated. Others, particularly those on the right, were amazed that the political transition did not lead to chaos. They expected the new government to adopt radical social and economic policies, which would destroy the economy.

But in spite of the miraculous political transformation, the economy is in the doldrums, and significant social transformation is more of a dream than a reality, except for the privileged few. By this it is not implied that much has not changed for the positive, but failing a much more buoyant economy there will be insufficient resources to significantly transform the social and economic position of the majority of the people.

How can we comprehend what is happening in South Africa and make informed judgments of potential future developments? Is our only option to depend on the political scientists and econometricians, the latter day astrologers? Like Tycho Brah, they may do impressive empirical work, but in the end their predictions depend on far-fetched assumptions, rather than on science.<sup>1</sup> Or can we, as social theorists used to believe, understand the future possibilities of a country through a thorough understanding of its past and present circumstances? Can our theoretical insights together with an intimate knowledge of the country enable us to understand South Africa's potential for social and economic transformation?

This essay has three sections. In all three, the focus is on socioeconomic development in South Africa. The first gives different perspectives on the history of socioeconomic development in South Africa—perspectives that will help you judge whether the political transition was indeed miraculous. It concludes with a short discussion of some of the methodological debates. The second section gives a short overview of present socioeconomic realities, and in the third, a number of possible future scenarios for South Africa are considered.

## II. What to Do about a Multi-Cultural, Multi-Paradigmatic Reality

An investigation of this multi-cultural, multi-paradigmatic situation is bound to be controversial. The same social and economic reality appears very differently depending on vantage point. Class position, the culture, and the scientific paradigm into which one has been socialized may well determine what one sees. How, then, does one present an objective perspective of the South African social and economic reality when it can be viewed from so many permutations of class, culture, and paradigm? Or is one inevitably the prisoner of one's specific background? Is a pervasive intellectual apartheid inevitably part of any academic discourse? Do we have to accept as insurmountable the marked differences in people's perceptions of reality, caused by differences in class, in culture, and in intellectual background?

There is no doubt that one can easily be the prisoner of a given view of reality. However, this essay is written in the conviction that even though one is often the prisoner of a paradigm, this is not inevitable. One can straddle different perspectives if one really tries. It is possible for those who immerse themselves in different cultures or opposing scientific traditions to see reality from a number of different points of view. What is more, one can, in the words of Karl Mannheim, attain a certain relational objectivity. This does not, as Mannheim would have it, assure the attainment of a "truth," but it does enable one to claim that some aspects of a theory have been falsified. From the outside, opposing views often seem absurd, but, as Wittgenstein warned, "criticism without understanding is vacuous." Only when one has immersed oneself into all the existing perspectives and carefully considered the internal logic and the available evidence, is one justified to reject a position.

It is not possible, within the confines of this essay, to present the case for this *multi-paradigm falsificationist* methodology in any detail.

Suffice it to say that once one has thoroughly engaged oneself in competing points of view, it may be possible to reject some views. Karl Popper's methodology can be applied on the condition that the members of the jury must go to the considerable effort to educate themselves about all the dominant paradigms. One cannot be a member of this scientific jury if one is the prisoner of any particular paradigm.

### **III. Different Understandings of South Africa's Socioeconomic Transformation**

There are many different stories explaining past patterns of socioeconomic development in South Africa — each of them giving a different understanding of what was historically important. Within English historiography, the liberal and the Marxist (also known as revisionist) traditions have been dominant for many decades. However, there was also a time when history was written from the perspective of the empire builders. And today a postmodern skepticism prevails in much of the discourse of English historians, even those with some commitment to Marxism or liberalism.

During the first few decades of this century, the Afrikaner nationalists had an interpretation of history that was anti-colonialist and in some ways similar to that later developed by the dependency theorists in Latin America. However, it was usually also tinged by a strong inclination to racism, and in the 1930s and '40s, many Afrikaner nationalists were attracted to a fascist understanding of socioeconomic reality — a perspective which is even today popular among right wing extremists, who have some significant support among the economically marginalized Afrikaners. On the other hand, there has also been a more radical tradition among the small but nevertheless not insignificant group of Afrikaners. However, in recent years, the economically successful Afrikaners have been converted to a liberal understanding of social and economic issues, as witnessed by the massive switch during the recent election to support the liberal Democratic Party and away from the former bastion of Afrikaner nationalism, the New National Party (NNP).

Many African writers have either had a liberal or a Marxist interpretation of socioeconomic reality, and even today these two traditions have committed adherents. There is also an Africanist tradition, which in the 1970s evolved into a more inclusive black consciousness analy-

sis. Although it may not be as well developed in academic terms, it played a most significant role in transforming South Africa.

Four different perspectives on developments in South Africa are now presented in order to provide a more complete picture of our past experience, and to provide an entry point for considering the possible futures South Africa may face.

### **A. An Afrikaner Nationalist History**

A dominant view among Afrikaners, and probably among most white South Africans, is that South Africa has become a relatively modern society because of the contribution made by the whites. By 1806, when the English permanently occupied the Cape, the Dutch-speaking white population numbered only 20,000, many of them descendants of the Dutch free burghers, who arrived when Jan van Riebeeck settled in the Cape in 1652, and the French Huguenots, who arrived in 1688. Nevertheless, according to the white view of history, this was already a colony vastly more developed than any of the other colonies Britain would occupy in Africa. Afrikaner history would have it that the Afrikaner pioneers, who trekked inland from 1836 onwards, brought stability and order to areas where the African tribes had lived in conflict. At the Battle of Blood River, they defeated the Zulus who, under Tshaka, had subjugated many of the other tribes.

The Afrikaners often used to think of themselves as a freedom loving people who trekked away from British imperialism in an attempt to establish democratic republics, drawing on the same principles as the American one. Although the Boer republic in Natal soon had to be disbanded when Britain added Natal to its colonies, the relative independence of the republics in the interior of South Africa was recognized by Britain under the Sand River Convention of 1854. This convention was revoked with the discovery of diamonds in Kimberley in 1876. Not only did the British readjust the borders to claim Kimberley, which actually was part of the Orange Free State, but in 1881 they also invaded the South African Republic (Transvaal), only to be defeated by the Boers at Majuba.

After the discovery of gold, it was only a matter of time before Britain, egged on by the mining magnates in Johannesburg and by Cecil John Rhodes, declared War on the Boer republics (after an abortive raid by Jameson in 1896). In the Anglo-Boer War, called the *Engelse Oorlog* (English War) or the *Tweede Vryheidsoorlog* (Second War

of Independence), the British empire had to fight for nearly three years, from October 1899 to May 1902, to subjugate the two Afrikaner republics. Although history books call it the last of the *Gentleman Wars*, the price the Boer republics paid was horrendous. More than a quarter of the Dutch speakers in these republics were exterminated. 6,000 Boer fighters were killed on the battle field or died in captivity, and another 26,000 women and children died in concentration camps (or detention camps, to use the terminology Queen Elizabeth II preferred in a recent speech), after having been removed to them from the farms under the scorched earth policy.

The Liberal Party, which had taken over in Britain, restored full political rights to all white (male) South Africans in the new Union of South Africa, which was established in 1910. By this time, it was clear that Britain had not fought the war to bring freedom to black South Africans, as many of the 20,000 black South Africans who died in the war (the Anglo-Boer South African War, as the ANC government has decided to call it) might have believed. The critical view, propagated by J.A. Hobson (later editor of the *Manchester Guardian*) in his books *The South African War* and *Imperialism*,<sup>2</sup> that Britain fought the war to serve the interests of the mining magnates and, in particular, their need for free access to labor, is today widely accepted.

For the first three decades of the 20th century, there was an increasing impoverishment of the Afrikaners. By the 1930s, the Carnegie Commission found that one-third of the Afrikaners were impoverished. The English often blamed this poverty on the laziness and indiscipline of Afrikaners. An English magistrate (local judge), for example, in his evidence to the Transvaal Indigency Commission in 1908, claimed that indigency was caused by the fact that the Afrikaners “bre(e)d like flies.”

Many Afrikaners, on the other hand, saw their poverty as the consequence of British occupation during the War of Independence and of the free market capitalism that was implemented by the South African governments up to 1924. In a series of articles which appeared in 1916 in *Die Burger*, the Afrikaner newspaper of the Cape, the editor, D.F. Malan, who became the first Afrikaner nationalist Prime Minister in 1948, gave explanations in some respects very similar to the dependency theory to be developed by A.G. Frank.

By 1923, the white mine workers in Johannesburg rebelled when the government wanted to allow black South Africans to do more responsible work—the Communist Party played a prominent role, calling on

the *white* workers of the world to unite. The Prime Minister, Jannie Smuts (a University of Cambridge graduate), who as a Boer general fought the British to the bitter end in the Anglo-Boer War, now turned his soldiers on his own people. As a consequence, the Labour and the National Party won the next election. The new government rejected the *laissez faire* policies of the United Party — policies that favored the established industries of Britain — and they went for a far more interventionist approach. The state established an iron and steel works (ISCOR) and an electricity supply commission; it raised tariffs on imports and announced a “civilized” labor policy on the railways and in the post office; and it required that a similar policy (favoring white and coloured employment) be implemented by companies contracting with the government.

During the years of the Second World War, Smuts managed to wrest control from the National Party (as Parliament split on the question of whether to remain neutral, as the National Party wished, or to support Britain). The old Boer general became a Field Marshall and served in the British War Cabinet, but by 1948, the Afrikaner nationalists again took control, gaining a majority of three seats in Parliament, even though the United Party had a majority of the votes. The nationalists’ election manifesto promised to nationalize the gold mines — a socialism with an ethnic goal — but they were bought off from radical economic policies when Anglo-American sold General Mining at a bargain discount price to Afrikaner interests. In the end, it was black South Africa that was to pay a heavy price when the “first past the post” system gave power to the Nationalist Party.

White poverty was addressed by adopting more and more measures to exclude Africans from the economy. As early as 1854, the whites of the small republic of Orichstadt had prohibited the use of guns by Africans, probably both for security reasons and because guns gave the white hunters a very significant advantage. In 1913, the Mines Act determined that only whites could be blasters and the Land Act not only allocated only 13% of the land for African ownership but also prohibited blacks from renting any land in “white South Africa,” thus ensuring that black farmers often had no option but to work for whites.

The “civilized” labor policy of the 1920s and ’30s excluded Africans from many job opportunities. This in the ’50s led to Job Reservation, which blatantly excluded Africans from many occupations in favor primarily of white South Africans, but also at times explicitly in favor

of “coloureds” (a coloured Labour Preference Policy was followed in the Cape Province and in sections of the Eastern Cape). By default, the Indian population at times also benefited from these regulations, although “Asians” were not allowed to settle or to spend more than 24 hours in the Orange Free State. The Urban Areas Act of 1948 was used to ensure that most African South Africans did not get permanent rights in the so-called white South Africa, hence the migratory labor system would continue for many decades to come. It also severely circumscribed the economic activities of small black shop holders, even in the black urban areas, by limiting the size of their shops and the products that they could sell.

Although it was primarily the Africans that suffered, the Indians and the coloureds also experienced severe economic discrimination. The most hurtful of these discriminatory measures was the Group Areas Act of 1958, under which areas were reserved for a specific racial group. This led to 100,000s of coloureds and Indians, who had homes in the better parts of towns and cities, being resettled into less desirable areas, usually much further away from the center of town. The most notorious resettlement of Africans took place in Johannesburg, when Africans were moved to Soweto from the vibrant Sophia Town (which was then renamed “Triomf” —the Afrikaans for triumph—to become a working class white Afrikaner suburb).

Although this exclusion of other groups from the economic opportunities offered by the rapidly growing South African economy dramatically enhanced the economic opportunities for white South Africans, the Afrikaner nationalist interpretation of history sees these measures merely as steps to protect the citizens of the country (white South Africans) from “foreigners” coming from the black homelands (many of which were given their “independence” in the ‘60s and ‘70s).

From an Afrikaner nationalist perspective, white poverty was overcome by the self-help programs launched by the *Reddingsdaadbond* and by sound economic policies followed by the Afrikaner nationalist government which ensured that during the half a century from 1920 to 1970, the South African growth rate was among the fastest in the world. During this period, only Japan and Sweden grew at a similar rate of about 5% a year.

There is no doubt that the *South Africa First* policies of the Afrikaner nationalist government did lead to a more rapid industrialization than would have been the case if the *laissez faire* policies of the old United Party had been continued. Furthermore, the whites-only social democ-



ratic welfare measures and the, in some respects, quite progressive education policies based on the Danish education system which were adopted from the 1930s onwards, together with the rapid expansion in job opportunities for white South Africans (which arose both because of the high rates of economic growth and because of the job reservation policies), all contributed to the rapid elimination of the *poor white* phenomenon.

The Afrikaner nationalist history emphasizes the proactive and progressive policies adopted by the nationalist government and the commitment to hard work and self-help preached by the *Reddingsdaadbond* and other cultural organizations tied to the *Afrikaner Broederbond*. The constant message from the Afrikaner nationalist government was that good governance and the good life could only be maintained by resisting the increasing pressures for a majority government. The economic failures of many of the postindependence African countries were given much prominence in order to ensure that white South Africans would continue to support the Afrikaner nationalist regime. Thus, even though the economy faltered from 1976 onward as black resistance and international pressure grew, the message was that the regime was still much to be preferred to a black government.

## **B. The Liberal English Understanding of Socioeconomic Development in the Apartheid Era**

The liberal<sup>3</sup> South Africans, primarily the upper class English, shared the conviction of the Afrikaner nationalists that an African socialist government would destroy the economy. However, they accused the Afrikaner nationalists of preparing the ground for such a socialist takeover. After all, apartheid inhibited the emergence of an African middle class, and, in the absence of such a black middle class, liberal editors often pointed out, socialism had a much greater appeal. What is more, the apartheid measures undermined overall economic growth, because a businessman could not allocate resources optimally. For example, he had to employ scarce white labor (or at times coloured labor) at higher wages than would have been required to attract the African workers that could not be employed because of the job reservation laws and the Coloured Preference Policy.

English South Africans view South African history very differently from the Afrikaner nationalists. In their view, civilization arrived in the Cape when the English permanently settled it. It was carried into

the interior of South Africa on the backs of merino sheep in the 1850s. The export of wool was seen as an economically far more significant event than the Great Trek of the 1830s. And although English South Africans would today deplore the concentration camps of the Anglo-Boer war, they also have no doubts that Paul Kruger's government would not have been able to facilitate the development of a modern South Africa in the wake of the discovery of gold and diamonds. There were many instances of corruption in the *Zuid-Afrikaanse Republiek* (the South African Republic, as the Transvaal was called by the Afrikaners) and the attempts to give the farmers preferential access to black labor was seen as economically shortsighted. Something thus had to be done to wrest control from the backward Boers.

The most eloquent exposition of the liberal English views of the early developments in South Africa is to be found in *Native Labour in South Africa*, a book by Sheila van der Horst, based on a London School of Economics Ph.D., Van der Horst, an Afrikaner by birth, who was to become professor in Economics at UCT. It quoted Adam Smith to argue that countries have to make a choice between opulence and defense. The discriminatory measures adopted against black labor were implemented to safeguard white security rather than to ensure economic opulence. However, since they interfered with the free market, they undermined the growth of the economy.

During the Second World War, the liberals hoped that there would be a move to a free market. Hence, there was great sadness when the Smuts government, victorious in their war against Nazi Germany, was defeated by a party sympathetic to the Nazis. Whereas the Smuts government was on the verge of implementing the relatively progressive Fagan report, which had proposed a more positive approach to urban blacks and to black poverty in general, the Afrikaner nationalists would now implement the crudest forms of apartheid.

In subsequent years, the refrain that policies adopted by the nationalist government interfered with the free market would be heard time and again. Racial discrimination as well as attempts to protect local industry was seen as economically irrational, pushing up costs and undermining growth.

By the 1960s, a very deterministic version of Rostow's *stages of economic growth* was applied to South Africa by Michael O'Dowd, who predicted that apartheid could not survive economic growth for more than another few decades. From this perspective, the problem in South Africa was Afrikaner racism and not the capitalist economy. In fact, a

prerequisite for change was the growth of the capitalist economy, since this would undermine the logic of apartheid. Liberals also pointed out that the Soweto riots took place precisely because there was a rapid expansion in the number of black students in secondary schools in the '70s, due to the need for more skilled labor following the rapid economic growth in the '50s and '60s. Similarly, the pass laws were scrapped in the '80s as they increasingly came into conflict with the needs of a modern economy. Capitalist growth was thus set to undermine apartheid.

### **C. A Marxist Perspective on Social and Economic Development**

The Marxist historians and social theorists looked at the same reality and came to precisely the opposite conclusion. Apartheid was not seen to be in conflict with a capitalist economy. On the contrary, they argued, apartheid evolved exactly because it served the functional needs of capitalism. The migratory labor system provided the mines, the farmers, and the factory bosses with super-exploitable workers. Since it was possible for the wife and children of the workers to eke out a subsistence living for themselves in the Bantustans,<sup>4</sup> the capitalists did not have to pay a wage sufficient for the reproduction of the family. Only the essential needs of the worker himself had to be met.

The fact that South Africa's rate of economic growth between 1920 and 1970 was among the highest in the world seems to lend support to the Marxist contention that apartheid was not in conflict with the economic system. A liberal could, of course, always retort that the economy would have grown even faster had it not been for apartheid. It has also been shown that from the '50s onward, many of the reserves could, in any case, no longer produce enough for households to subsist. A sophisticated liberal response to the Marxist interpretation was the argument by Merle Lipton that the mining and agricultural sector did in fact benefit from apartheid, whereas apartheid was increasingly imposing costs on the manufacturing sector.

The most important difference between the Marxists and the liberals was, however, not in their interpretation of history, but in their prescription of how society had to be transformed. The liberals believed in an evolutionary transformation which would inevitably happen if the market forces were let loose to destroy the system of apartheid. The Marxists, on the other hand, argued strongly in favor of a revolutionary transformation. Racial capitalism was a unified system. Both

apartheid and capitalism had to be destroyed if society was to change for the better, and this would call for a revolution that would smash both the structures of apartheid and of capitalism.

If one looks at the actual *dénouement* of the African drama, one may be tempted to conclude that both groups were wrong. Change came because of the radical strategies to isolate and undermine the South African economy rather than because of its rapid growth. But it was a realization that the black community, conscientized by the 1976 Black Consciousness uprisings, would never accept the separate development ideology, as well as the economic sanctions that got the nationalist government to the negotiation table, rather than any real military threat. The collapse of the Soviet Union, even though it meant that the ANC could muster less of a credible military threat, in fact contributed to the settlement, for it became clear to the nationalist government that the likelihood of South Africa being transformed into a radical socialist state had radically diminished.

In the end, the settlement, although it was brought about by means that were opposed by the liberals, brought along an outcome that they, rather than the Marxists, would favor. Contrary to what the liberals argued, an onslaught on the economy was needed before apartheid was disbanded. Because of the unexpected but, viewed *ex post*, entirely reasonable willingness of the National Party to settle at an early stage, the change was in fact evolutionary rather than revolutionary. In the end, the free market was strengthened by the abandonment of the apartheid state. Capitalism did not need apartheid to survive. Stagnation rather than economic growth brought about the change, but the change was evolutionary rather than revolutionary. There were thus serious flaws in the argument of both the liberals and the Marxists.

#### **D. An Africanist Perspective**

There has been a longstanding Africanist perspective on the nature of social and economic change, generally not well represented in the academic literature. In some ways, because of the potential to mobilize both traditionalist and radical Africans, this tradition always posed a very significant potential threat to the white regime. There was a strong element of Africanism in the protests the Congress movement launched against the pass laws in the '50s. And the first severe crisis of the regime followed the massacre at Sharpeville in 1961, when protests led by the Pan African Congress rocked the white establishment. In the

end, it was under the banner of Black Consciousness that not only the African youth, but a very significant proportion of all those not classified as white were mobilized.

An extensive literature sprung up as the Black Consciousness movement, led by Steve Biko, developed a very nuanced understanding of how to challenge white domination, an understanding which liberals and Marxists first rejected. Although it was neither militarily nor economically powerful, the Black Consciousness movement forever changed the black South African understanding of social reality. And although the apartheid regime survived the Soweto uprisings in 1976, it lost its ideological hold on black South Africans. The younger generation would never again believe in the apartheid ideology nor would it, on any significant scale, cooperate with apartheid structures.

Black Consciousness not only reinterpreted the present. It reinterpreted history through its critiques of the role of different sectors of the white society. For example, the "heroic" trek of the whites to civilize the interior was seen as an occupation of African territory. The role of the liberal missionaries was seen through different eyes. Although they might well have opposed some of the worst excesses of colonial rule, they were also instrumental in undermining traditional black culture and encouraging habits in dress and abode which served the interest of the white manufacturers of clothing and construction material, often at a high material and psychological cost for the Africans. Even the traditional African burial rites were effectively undermined.

There is no doubt that the definitive Black Consciousness or Africanist history of South Africa still needs to be written. The undermining of the traditional black way of life soon after the whites moved into the interior of South Africa has been documented. The massive slaughter of big game simply to export skins; the indenture of black children when their parents had been killed by the Voortrekkers; the Glen Grey Act, passed by Cecil John Rhodes in the Cape Parliament, demanding cash tax payments by blacks in order to "encourage" them to work in the mines and thus become "civilized;" the agreements with the Portuguese authorities in Mozambique to pay half of the wages of black mine workers — all this shows how desperately white South Africa needed black labor. Indeed, this was a need from the very beginning. During the first few decades after settlement by the Dutch, a single slave was worth more than the entire farm. For most of South Africa's history, except for the last two to three decades, there was talk of a shortage rather than a surplus of labor.<sup>5</sup>

Much of South African history turns on the attempts by white South Africa to ensure that black labor would be available to work for them, including, as was noted above, the Anglo-Boer War. Black labor played a crucial role in building up the economy. And yet, even today, most of the wealth of the economy is in the hands of whites. There is no doubt that in the minds of most black South Africans the question is not merely how to deal with black poverty, but also how to ensure that there is a shift in the ownership of the companies that dominate the economy.

There are some similarities between the positions of those who in recent years have laid claim to be the custodians of the Black Consciousness movement and the Afrikaner nationalists. Sometimes their views of needed economic changes are romantic rather than rooted in any fundamental understanding, and at times socialism is defined as ownership by blacks rather than by whites, and not as the socialization of the means of production. This is very similar to the position adopted by radical Afrikaners in the '30s, when socialism was defined as ownership by Afrikaners rather than by the English.

But even though some of the economic arguments by those in the Black Consciousness movement may at times be rather imprecise, this does not take away from what I would argue is an incontrovertible fact, namely, that the white regime lost its dominance more because of the successful challenge to white supremacist thinking developed by the Black Consciousness movement in the 1970s, than because of the significant military resources made available to the liberation movements by the Soviet Union.

Although the Black Consciousness movement may at present be in the hands of those on the political fringes, Africanist thinking is central to some of the new approaches within the ANC. A rebirth is taking place in serious African scholarship. Already in the first decade or two of the 1900s, Sol Plaatje, one of the founders of the ANC, brought in an African understanding of history. This tradition is likely to be developed more strongly in the next decade or two.

#### **IV. Complementary Stories or Incommensurable Paradigms?**

What is to be made of the very different interpretations of South Africa's history? In many respects, stories told from different vantage points are, of course, complementary. To the extent that this is the case, viewing social and economic change from different perspectives gives

one a more complete picture. However, what does one do when the stories come into conflict with each other? How does the social scientist adjudicate between competing understandings of social reality?

One option is to accept the Kuhnian postulate that paradigms are incommensurable and that there are no neutral scientific criteria by which to weigh contradictory claims. Paul Feyerabend argued that this would imply a methodological anarchism—anything goes! This position, tolerant as it may be, does not help social actors much when they wish to attain a certain goal. For example, how was one to destroy apartheid? Was South African capitalism so dependent on apartheid that it would defend it to the bitter end? Or would capitalist development, as the liberals argued, create the conditions under which apartheid would be undermined? At the time these debates were at their height, the outcome was not clear.

According to the methodological anarchist, both of these positions could be right, and therefore both were to be tolerated. The Marxists, of course, argued that their position was clearly based on science, and that the liberals were but espousing bourgeois ideology to defend their own vested interests. On the other hand, liberals argued that their position was to be accepted either, if they were old style positivists, because it had been proven to be true, or, if they were Popperians, because the opposing paradigms were false.

It is now clear, only a few years later, that those Marxists who argued that capitalism had to be overthrown if the system of apartheid was to be disbanded were clearly wrong. Of course, one could still argue, as many Marxists do, that social and economic apartheid are still with us, and that only the introduction of socialism can change this. However, it cannot be denied that the political system of apartheid was disbanded because of a political compromise between the Afrikaner Nationalist Party and, in particular, its leader at the time, F.W. de Klerk, and the ANC and its leader at the time, Nelson Mandela. Most Marxists argued even shortly before it happened that such a *dénouement* was impossible. In fact, those of us who even dared to mention the possibility of such an outcome were denounced.

Economic liberals, on the other hand (particularly those who believed in Rostow's stages of growth model), argued that apartheid would be undermined if the capitalist economy was allowed to grow. They denounced sanctions and military actions against the South African regime as actions that would but delay the inevitable transition to a more democratic society. There is little doubt in my mind that

the economic pressures and the prospect of a drawn out and destructive military conflict did play an important role in bringing the nationalist regime to the negotiating table but that the liberal analysis was also seriously flawed. However, the liberals could always argue that the transition would have taken place more quickly had there not been economic and military pressure. At least they are not in the position in which a type of transformation took place that they had categorically stated was impossible.

Even after the much-debated transition has taken place there is room for debate. However, the honest liberal and honest Marxist would have to concede that both these analyses were seriously flawed.

Although one at times has to live with ambiguities if one is to be an honest social scientist, the accumulated experience of comparative societies often does provide unambiguous answers. Anything does *not* go, despite the claims of the methodological anarchists.

However, statements like the Afrikaner nationalist contention that blacks would never be able to govern a country successfully did not have to wait for five years of a successful black government to be rejected. Even at the time they were made, these views were clearly in conflict with the available evidence. Both in terms of their internal logic and in terms of their understanding of what had happened in other societies, these views were untenable.

In the final section of this essay, when looking at different prescriptions of what could be possible future developments in the social and economic spheres, more illustrations are given of the contention that one can dispose of views even though all the evidence within the specific context is not yet in.

## **V. Understanding the Present—Different Levels of Social and Economic Development in the New South Africa**

### **A. The Importance of Presenting Statistics According to Population Group**

To understand the realities of social and economic development in any country, one should not simply present average statistics. One should separately consider the position of different groups and classes. Given its history, this is particularly true in the case of South Africa. As a consequence, not too long ago those on the left were inclined to do away with population classification because it was seen as racist, but today it



is generally people on the right who are arguing for an undifferentiated statistical picture.

In this section, a short overview is given of the most relevant statistics; firstly, those that give a picture of the economic realities, and then those statistics that give us some understanding of social realities.

### **B. Per Capita Income, the Gini Coefficient, and the Distribution of Wealth**

South Africa has a total GDP of about \$120 billion or, in terms of South African Rand, its GDP is in excess of R700 billion. South Africa thus produces more than a third of the geographical product of the whole of sub-Saharan Africa. This may seem to be quite an impressive GDP until one puts it into an international context. For example, given the fact that the American GDP is about \$7100 billion, South Africa's GDP is slightly more than 1% of the American GDP. In fact, during 1999 alone, the **increase** in the American GDP was virtually three times the **entire** South African GDP or about equal to the **total GDP** of all the sub-Saharan African countries. South Africa is a big player in sub-Saharan Africa, but Africa is a very small player in the world economy.

Officially, South Africa's population is approximately 42 million. (South Africa's total population is about equal to the number of new babies born each year in India.) Although this is probably a slight underestimation,<sup>6</sup> for purposes of calculating *per capita* income this would suffice. In terms of this population figure, the per capita GDP in South Africa is about \$3,000. This is about one-tenth of the American per capita income (and about ten times that of many of the poorer African countries). However, although things such as cars and computers are cheaper in the U.S., most other things are more expensive. In terms of purchasing power parity, the per capita income in South Africa is estimated to be equal to about \$6,000, or one-fifth the American per capita income.

From this it does *not* follow that the average South African has a per capita income which, in purchasing power parity terms, is equal to one-fifth of the American per capita income. Because a very high proportion of income goes to the top income earners, the median income is significantly lower than the average income. This is true both in the U.S. and in South Africa. However, although income in the U.S. is very unequally distributed when compared to the situation in many European countries, the situation in South Africa is worse. Indeed, accord-

ing to World Bank calculations, the South African Gini coefficient—one of the statistical measures most commonly used to estimate income inequality—is among the highest in the world.

Although apartheid as a political system has been replaced by a parliamentary democracy, it still makes sense from a socioeconomic perspective to speak of four different population groups. White South Africans have a per capita income similar to that of many European countries. The Indian population, who came to South Africa when indentured laborers were needed to work the sugar plantations in Natal, also has a relatively high income. The average per capita income of the coloureds (descendents of the Khoi-Khoi, the slaves from Malaysia and Indonesians and people of mixed blood) is still about twice that of the Africans.

The high *Gini* coefficient reflects the very high income differentials between the different population groups. However, during the past decade, as black South Africans have been absorbed into the civil service and the business class, income inequality among black South Africans has grown rapidly, with the result that the South African Gini coefficient remains among the highest in the world even when the white population is excluded.

Wealth is even more unequally distributed. Under the Land Act of 1913, 87% of all land was made unavailable for black occupation. In terms of the actual value of the land, white South Africans probably own well in excess of 90% of all land. With regard to companies listed on the stock market, white South Africans control about 95%.

### **C. Education, Health, and Welfare**

Regarding education, health, and welfare, it again makes sense to look at the different population groups separately. In the '50s, the National Party destroyed the old mission school system and intentionally created an inferior education system for Africans. In the early '70s, the National Party realized that the economy would need better-qualified Africans, and rapidly expanded the secondary schools, but this backfired when these schools became the site of the struggle against the regime. As a result, black schooling continued to be very badly run. Today, the schools in the black areas still do not function properly. However, some of the private schools and so-called "Model C" schools, which are often still predominantly attended by white South Africans, are quite outstanding.

In a comparative study of the mathematical and scientific training of school children in forty countries, South Africa did the worst. On the other hand, in international mathematics and science competitions, the top South Africans (predominantly white) usually do well. The quality of schooling that the average African student receives at the primary and high school levels is even today very different from that of the average white student. Many of the predominantly Indian schools seem to be quite effective, and most coloured schools function much better than the African schools.

During the past ten years, apartheid in the schools has been done away with, but in general only black children from a middle class background are now beginning to attend the better schools. The vast majority of Africans still find themselves in inferior schools. Now that the same examinations are written, on a provincial basis, the massive difference in education is there for all to see. Whereas only a few students from African schools obtain distinctions and whereas more than half the students from many African schools will fail, there are schools in white areas where close to a third of the students pass their matric (final school examination) with an A- average.

Although the quality of schooling leaves much to be desired, about 95% of all Africans (of the age school attendance is compulsory) are, in fact, attending schools. The relatively high degree of access to schooling, although at a low standard, was already attained under the previous regime. As a consequence, the level of illiteracy is less than 20%, if one accepts the norm that anyone who has attended school for at least four years is literate. On the other hand, some tests of functional literacy would indicate that only 50% of South Africans can read and comprehend fairly straightforward material.

About 80% of all Indians and whites under the age of 18 found themselves in households where both parents are present. On the other hand, only about half of the coloureds and a bit more than one-third of all Africans have both parents in the same household. Thus, even if the school system is improved quite dramatically, some population groups will continue to be better prepared for life than others, given the assumption that it is important to have both parents at home.

Until 1998, quite a substantial child maintenance grant was paid to single parents, primarily to single mothers. Although Africans, who in the past were not paid this grant, could apply for this grant after 1994, it was still primarily the coloured population that benefited from the total annual payments of about R1.5 billion when this grant was dis-

continued and replaced by a means-tested child grant. This grant is only payable to children under six years of age in needy families, and amounts to about one-fifth of the maintenance grant. If everyone who is entitled should apply, the total cost would be of the same magnitude as the original grant, but the money would reach a much larger number of kids. The change in system would mean a redistribution from the relatively poor coloured families to the very poor African families.

With regard to health, there are also marked differences between the different population groups, which reflect differences in socio-economic circumstances. For example, about a quarter of all African children under six are stunted (too short for their age — a reflection of chronic malnourishment) and one in ten are underweight for their age. Among white South African children undernourishment is not a problem. Malaria and bilharzia are far more common among black South Africans, as is the incidence of HIV infection. As many as 20–25% of black South African women visiting prenatal clinics in certain areas in Kwazulu-Natal are HIV positive. Some demographers have projected that the consequence of all this will be a zero population growth in South Africa by the year 2010, and that average life expectancy may fall from about 60 to somewhere in the 40s.

Socioeconomically, the most significant difference is undoubtedly the very high level of unemployment in the African community with a very much lower level in the Indian and white communities. Unemployment insurance is only paid out for six months, and then only to those who have contributed to the scheme for at least two years.

The most significant intervention by government to counter the consequences of unemployment is not in support of those who are of working age and unemployed, but of those who have reached the official retirement ages of 60 for women and 65 for men. The income of pensioners is means-tested, and those who are poor, often because they were unemployed for much of their working life, are paid an old age benefit of about R560. In total, about R10 billion a year is paid out in the form of these grants.

In the '60s, the old age grant was primarily to help the white poor. Blacks had difficulty qualifying for it, and if they did, the amount paid out was only one-tenth of the grant for whites. However, over time the differences in the amounts the different groups received was reduced, and by 1993 parity was brought about. This meant a very significant increase in the welfare payments to the black community. In many black rural areas, the old age grant is the major source of income and,

although it may seem to be quite low, not only the pensioners but many of their children and grandchildren are supported by it. For example, half of all unemployed single mothers live in households where there is a pension income.

#### **D. Changing the Social and Economic Landscape**

There is no doubt that the political landscape in South Africa was dramatically changed by the transition to majority rule in 1994. Whereas the most contentious academic debate of the '60s was the question of how the political transition was to take place, the question today is what ought to be done to change the social and economic landscape.

The African National Congress won the election of 1994 for implementing the Reconstruction and Development Programme (RDP). This program served social and economic transformation on a wide front. By 1996, the government also adopted a macroeconomic program, known as Growth, Employment and Redistribution (GEAR). This program promised to cut the budget deficit from about 6% to 3% by the turn of the century, and to bring down tax income to 25% of GDP.

The RDP envisaged that government expenditures on social needs would stimulate economic growth. GEAR foresaw that macroeconomic discipline would lead to greater confidence in the South African economy and hence more foreign investments, resulting in a higher rate of economic growth. This would create 300,000–400,000 new jobs.

With regard to the RDP, some of the goals have been met. For example, there has been wide scale delivery of electricity and water, and probably about half of the million houses promised were built. With regard to GEAR, the deficit targets have been met. In fact, if one considers that some of the government expenditure has been used to build up the pension fund for government employees in order to fund future pension payments, the government has brought the deficit down to about 1%. The free fall of the Rand, which shocked the government into adopting GEAR, has also been stopped—even though the Rand is still edging downwards. However, the envisaged new investments have not been forthcoming.

The supporters of GEAR blame the lack of investment on the very high interest rates the Reserve Bank has been forced to maintain because of the crisis in other emergent markets (e.g., Russia and Brazil) and also on the lack of labor flexibility (one of the GEAR goals was to create more labor flexibility). The Congress of South African Trade

Unions and the South African Communist Party, on the other hand, blame GEAR. They argue that higher deficits would have stimulated the growth of the economy.

By the time GEAR was adopted, new labor legislation had already been passed which gave more power to the workers and to the trade unions and made it more difficult to retrench workers. In addition, an Equity Act was adopted (to be implemented in the year 2000) requiring companies with a workforce of fifty or more to set targets to transform the gender and racial composition of their labor force.

Although it is interesting to investigate whether these different policy initiatives are complementary or contradict each other, this path will not be followed in this essay. Instead, the final section considers three possible scenarios for transforming the social and economic reality in South Africa. In the process, attention will be given to the role these and other policies can play in transforming South African reality.

## **VI. Possible Future Patterns of Social and Economic Transformation**

The future pattern of economic development in South Africa is not a given. Even in the same context, different futures can be realized, depending on the choices South Africans make. Scenario planning is a method by which one tries to evaluate the outcomes of different options. Because the scenarios are told in story form rather than in the protected discourse of specific paradigms, it is often possible to get a relative degree of consensus among people with quite divergent points of departure.

White and black businessmen and progressive black academics participated in a scenario exercise coordinated by the author. The result was interesting. The scenario, called crony capitalism, is the one the businessmen would have preferred at the outset. When one attempts to tell it as a logical coherent story, it turns out to have unintended outcomes. The outcome of the second scenario, called moderate macro-economic populism, is not unexpected given the fact that those who participated did not believe in this approach at the outset, but it is a story which may be difficult to counter even for those who believe in the underlying policy approach. The third and most successful scenario, called growth and reconstruction, turned out to be more radical than one would have expected given the group of participants. The crucial question is whether it is a possible story. Is the outcome foreseen a real possibility?

Each of the participants must judge whether any of these stories could have been told differently, given the socioeconomic realities in South Africa and globally. The question is not whether any of these are the most likely outcome, but whether each of them is possible. Scenarios are not predictions, but simply possible stories of the future which help one to make better choices today.

This scenario exercise considered possible developments during the next decade. It is the story about different vehicles that can take South Africa into the future. The first scenario can hence also be called "Who Owns the Old Merc(edes)?" The second can be called "Kick-Starting the Combi Taxi" and the third "The Airbus Takes Off."

### **A. Crony Capitalism or Who Owns the Old Merc?**

This scenario calls for the continuation of GEAR, with its macroeconomic discipline, together with strong affirmative action policy in business. Labor market flexibility is assured by significantly reducing the power of the trade unions. The attempt is to imitate the very amazing Malaysian story.

The ANC government enters the new millennium under pressure from various groups to adopt a more populist approach. Since the leadership is convinced that this would lead to economic disaster, they strengthen the alliance with Inkatha, the traditional leaders, the emerging black business class, and the new black bureaucracy. They also give more power to the military and the police by purchasing new hardware and implementing measures to ensure political stability, even though the constitutionality of the powers given to the "securocrats" is questioned.

The approach adopted by the government emulates the Malaysian model. In Malaysia, very high economic growth, averaging about 8% per year, was realized over the two decades from 1970 to 1990. The model was based on an authoritarian economic policy, which sidelined the trade unions and gave a special dispensation to the indigenous business sector and to foreign companies contemplating investment in Malaysia.

The strategy had very tangible benefits for the expanding business class among the indigenous Malaysians. They increased the proportion of the private economy they controlled from virtually nothing to more than 20%. Given the high economic rate of growth, this means

that by 1995 the real value of their capital was worth more than all the capital stock of the 1970 economy.

Since only a relatively small proportion of the indigenous Malays (also called the Bumiputra or “sons of the soil”) benefited from this transfer of ownership, inequality among the Bumiputra in terms of ownership of wealth worsened. Income distribution as measured by the Gini coefficient got worse, although if one looks at it in terms of the share in income of the top 20% and the bottom 40%, there was a slight improvement.

If one bears in mind that an important factor in the rapid growth of Malaysia was the low cost labor guaranteed to the companies that invested there, it may seem as though the success of some was premised on the exploitation of others. However, in the end, virtually everyone benefited from the high rates of growth. High GDP growth led to rapid growth in employment and the rapid expansion of rural development programs. Wages, although originally very low, increased dramatically over the 25 years to 1995. As a result, the proportion of the really poor declined from nearly 60% of the population in 1970 to about 15% by 1995. And since the rapid rates of growth made it possible to implement a widespread affirmative action program without too big a cost for the economically dominant Chinese community, everyone benefited from these policies. The income and wealth of the Chinese also expanded rapidly, even though not as dramatically as that of the Bumiputra.

The ANC government is very sensitive to criticism that the new South Africa looks far too much like the old, in that whites continue to be in a very privileged position. In response, the government redoubles its efforts to change the demographic profile of both the public and private sectors. It does so in the private sector by favoring black companies in its procurement contracts and by a strict application of the Employment Equity Bill. In the public sector, it appoints people representative of the demographic profile of the country as quickly as possible to top management structures. Furthermore, affirmative action principles are applied in higher education to ensure that South Africans of African extraction are given preferential access to popular courses such as medicine and business science.

Affirmative action in education and the implementation of the Employment Equity Act are resented by the established white, Indian, and coloured business classes. They soon find that the rapidly emerging African middle class also shares their concern to guarantee stan-



dards in former Model C schools and that private sector health care remains effective and strong. More fundamentally, in conflicts with Cosatu, emerging black businessmen have the ear of the government, and increasingly the government acts to shift the balance of power to the business classes. As a consequence, the initial opposition to affirmative action is quite muted. However, when the economic growth does not pick up, the established business sector starts laying the blame on the affirmative action policies, claiming that many of the affirmative action appointees they were forced to hire are incompetent and that the competitive positions of their firms are being undermined. They also claim that many of the civil servants appointed under affirmative action policies to high ranking positions are not up to doing the job.

Against the wishes of Cosatu, the government follows the example of Malaysia and establishes Export Processing Zones in the Eastern Cape and other areas experiencing high unemployment, and changes some labor laws to ensure greater flexibility, in the hope that cheap labor and the right to hire and fire will result in an economic boom similar to that of Pacific Rim countries.

On the macroeconomic front, things remain much as they were before. The Department of Finance continues to champion conservative fiscal policies. South Africa continues to have an acceptable credit rating. The Rand remains relatively strong because of very high real interest rates and conservative fiscal policies. The deficit reaches the 3% target, the labor markets are more flexible, and generally South Africa conforms to the requirements of the Washington consensus. However, the economic benefits do not materialize.

The attempt to emulate Malaysia fails for a number of reasons. Whereas Malaysia could provide cheap labor for nearby Japan at a time when industry was the major growth sector, cheap labor is not the crucial factor in what is today the major growth sector — the knowledge industries. South Africa does not have a Japan on her doorstep, desperately looking for cheaper production possibilities. China and other Pacific Rim countries continue to dominate low-cost industrial production, thanks to lower wages, higher productivity, better education standards, and better management than those found in South Africa.

In contrast to Malaysia, South Africa does not manage to dramatically improve the education received by the vast majority of South Africans. Add to this the emigration of many of those with technical

skills and South Africa is not well placed to join the new technological revolution.

Low rates of economic growth mean that affirmative action inevitably takes place at the cost of some people, rather than within the context of a rapidly expanding economy where opportunities for everyone can grow.

A further factor that undermines attempts to emulate the Malaysian model is South Africa's very progressive Constitution. The trade union movement mobilizes opposition to Export Processing Zones in South Africa and to the attempts to create more flexibility in the labor market. Many of the more strong-armed attempts to bring crime under control, some of them borrowed from Malaysia, are successfully challenged in the constitutional court. It seems as though there is, at times, a conflict between the conditions needed for high economic growth and the human rights culture defended in the South African Constitution.

In spite of these attempts to follow Malaysia's example, the South African economy remains stagnant. The Rand remains relatively strong because of very high real interest rates and conservative fiscal policies. Nevertheless, the rate of investment remains low, economic growth never really takes off, and the slow but sure erosion of capital and skills from South Africa continues. Business class people and professionals of all colors continue to disinvest, because the future is uncertain. There is some new foreign direct investment, but most of the foreign funds come in the form of short-term investments in bonds and equities.

Although growth again picks up in the first years of the millennium, it does not for any sustained period go much above 3%. Because of the rapid transformation of the upper echelons of business and government, the standard of living of the middle to upper classes of black South Africans improves dramatically. As a result, the Gini coefficient for black South Africans grows rapidly. However, savings remain very low, and new investments can therefore only be financed by further deficits on the current account. As a consequence, the foreign reserves decline even further.

While attempts are made to step up delivery to the poor, they have only a limited impact because of the conservative fiscal practices and inefficiency in the public service, which has not been improved by the rapid changes in top management structures. Because of low rates of economic growth, unemployment continues to increase.

The government promises to focus on primary health care. In practice, however, health care is only effectively delivered to the members of medical aid schemes who can afford to buy private health care. Cosatu, with an increasing proportion of members also belonging to the medical aid schemes, in practice accepts the status quo, while in principle supports a National Health scheme. While more people gain access to private health care, the quality of service in public health care declines visibly. The HIV/AIDS epidemic compounds problems experienced by the public health sector; these problems include a higher risk of HIV infection in poorer communities that depend on public health care, and a tendency of the private sector to dump HIV/AIDS victims on the public health sector as provider of last resort, once members of medical aids have exhausted their funds. The net effect is that the quality of health care provided to poorer communities deteriorates dramatically.

While affirmative action applies to admission to universities, traditionally black schools fail to provide a significant improvement in education needed for university entrance. Black students wishing to obtain university education opt to attend former Model C schools, if they can afford it. However, the educational system as a whole fails to produce enough black students qualifying for university entrance. In addition, children from impoverished backgrounds find it virtually impossible to gain entry to universities, even if they achieve the necessary matriculation results, because funding for higher education remains restricted.

The trade union movement opposes the focus on the middle class and resents measures to limit the power of the unions, as well as police surveillance of their activities. Nevertheless, they find that their political clout is diminishing, with more and more of their members being co-opted into the middle classes. Police intelligence personnel infiltrate Cosatu, and government adopts various authoritarian measures to ensure that Cosatu cannot cause "economic havoc."

For several years, South Africa muddles through in spite of the failure of the Malaysian model to set it on a sustained path of growth and development. The only notable attainment of government is that white privilege is now shared by a rapidly emerging class of black businessmen and government officials. For the mass of people, things have not changed much, and this leads to growing discontentment. Fluid social, economic, and political conditions in countries to the north contribute to the growing malaise.

The armaments industry sells successfully to countries engaged in conflict, but the South African economy as a whole continues to stagnate. Despite growing xenophobia, an increasing number of illegal immigrants from the north continue to enter South Africa. Thanks to its international links, South Africa becomes a center for the international drug trade and violent crime undermines social and economic stability. HIV increasingly affects employed people, with costly social and economic consequences. Within a decade, there are more than two million AIDS orphans. In spite of much rhetoric, government can do little to improve their lot.

The government draws mixed support from the privileged white sector of the population. Even the new, burgeoning middle class is critical, despite earlier support. In time, radical pressures become insurmountable. A decade from now, South Africa is in turmoil. The poor increasingly mobilize against exclusion. Illegal settlements, violent land invasions, and an increasing number of demonstrations get out of hand. Some unions within Cosatu adopt more radical positions. The government is accused of favoring the relatively privileged. The complexion of those in leadership positions may well have changed, but the real concerns of those at the bottom have not been successfully addressed.

More and more of those with any skills to offer internationally, or with any funds to spare, emigrate to countries such as Canada, Australia, and New Zealand, as well as Botswana and a few other African countries seeing economic growth. The government tries to manage its wealth for the benefit of the privileged, but in the end benefits no one. Government continues to muddle through as the increasingly prominent securocrats suppress any attempts at more radical change. Economic development remains modest, though, in spite of strict adherence to the prescriptions of the World Bank and IMF. Although there is no imminent collapse, the South African economy continues to grow far too slowly to meet any of the aspirations of those who remain excluded. It becomes a more and more divided society.

### **B. Moderate Macroeconomic Populism or “Kick-Starting the Combi Taxi”**

In the run up to the local elections in 2001, the ANC government is well aware that it has failed to meet the expectations of 50% of the electorate who can be classified as very poor. Because there seem to be no

prospects to realize higher rates of growth under the GEAR policy and because of the danger of a split within the movement, the government decides to opt for a more populist strategy. The key to the new policy is more government spending, especially on social projects, in order to kick-start the economy. It is claimed that this policy will provide both growth and redistribution. The policy switch is announced under great acclaim from Cosatu and the South African Communist Party.

The argument of the new left (or the neo-Keynesians, as they are sometimes called) is that a significant increase in expenditures is needed to ensure growth. Instead of favoring old style macroeconomic populism with deficits well in excess of 10%, the left wing of the ANC successfully pushes for an approach in which increases in government expenditure are funded both by 3–8% increases in the deficit and by increases in taxes and levies. It targets expenditure in areas where it is specifically needed, such as housing, education, and health. The Labour Act and the Employment Equity Acts are, furthermore, radicalized in order to ensure a swift transfer of the economy.

A major focus of the new policy is the provision of housing. It is argued that money spent on the construction industry will of necessity stimulate the South African rather than the international economy (as is the case when money is, for example, spent on arms procurement). The government increases delivery of housing dramatically by becoming more directly involved in housing construction, as it was in the days of Verwoerd. This leads to a rapid increase in the number of homes built.

Government is particularly effective in making more land available for housing development through radical measures, including very high taxes on undeveloped land in urban areas, which increases its income. This immediately leads to higher growth rates, and during the year 2000, the growth rate in the GDP seems to be on its way to exceed 5%.

As part of the new strategy the Department of Health drives through its policy entitled "Towards a National Health System." It increases resources available to the poor by regulating private health care funding arrangements and by introducing a compulsory Social Health Insurance System for all formally employed people to fund a public hospital package. A centrally controlled licensing authority for private health care and two-year compulsory community service for newly-qualified doctors help to undermine private health care as an increasing number of these doctors emigrate.

While private health care takes the strain, public health services expand significantly in the first few years. As many clinics are built as in the first five years, and this time sufficient funds are made available to staff them with well-trained nurses. However, the growing HIV/AIDS epidemic, together with the emigration of many of the more qualified doctors, eventually results in a deterioration.

The government launches a campaign to dramatically improve the quality of teaching in primary schools in townships and densely populated rural areas. Education authorities fund the campaign by reallocating a proportion of contributions made by parents of former Model C schools to disadvantaged schools so that they also can employ additional teachers, and by relocating some of the best teachers from Model C schools to previously disadvantaged schools.

The government scraps central examinations in order to make university education more accessible to the poor. Assessment is based on continuous evaluation within individual schools and on the assumption that marks in all schools should reflect an equal proportion of results. The government eliminates university fees and only subsidizes those universities that teach in English and have a significant proportion of African students. As a result, student numbers at universities increase dramatically. However, more affluent parents increasingly send their children to universities in the United Kingdom and the United States, as they perceive that South African degrees are being devalued.

Labor relations acts are strictly enforced to ensure that it is very difficult to dismiss workers, and new legislation is adopted to give trade unions a much stronger role in the investment and management decisions of private firms.

Meanwhile, inspectors monitor companies closely to make sure that they implement the Employment Equity Act. Dissenting companies appeal to the Constitutional Court on the grounds that the Act requires them to classify people according to race. The Court upholds the law claiming that "black" refers to those historically disadvantaged. As a result, more and more companies try to win the goodwill of the inspectors, by either appointing their friends and relatives or by bribing them outright.

The aim of government when adopting this new approach was to generate new growth, which would make it easier to deliver to the poor. In the short term, this could be possible, but the economy is soon in crisis. Various factors contribute to this.

The government's new policies contribute initially to a growth rate of about 5%. Attempts to raise taxes to fund this social expenditure are only partially successful because of increased tax avoidance. The deficit climbs rapidly to around 8% or 9%. South Africa soon loses its investor-grade credit rating. In spite of direct intervention to control capital flight, billions of Rand leave the country. Domestic savings plummet even further. After the initial growth, which lasts for a year or two, the economy rapidly declines.

The higher deficit was supposed to stimulate economic growth. Instead, it promotes more imports. Attempts to counter this trend by imposing higher import tariffs are not very effective, partly because of increased corruption, but also because trading partners start closing markets to South African goods because of South African breaches of the WTO agreement.

The reality is that the extremely low foreign exchange reserves limit the government's capacity to kick-start even minor growth. Even the very moderate version of macroeconomic populism attempted by the government runs out of steam very quickly. Initial gains are wiped out. The Rand starts collapsing and within four to five years it trades at levels of between R16 and R20 to the dollar. Inflation reaches more than 30% a year, and foreign exchange reserves are totally depleted. GDP sees negative growth.

The rapidly expanding black middle class that initially supported the government's new policy direction becomes increasingly disillusioned. While jobs are protected by law, trade unions find that increasing numbers of companies are closing down. Deteriorating standards and escalating costs at former Model C schools and in private health care also alienate the black middle class. Dissatisfaction among the traditionally privileged classes reaches very high levels.

Emigration increases dramatically. People leaving include those in knowledge-based industries in particular, as well as those with basic management skills. Older whites remain and retire to holiday villages such as Hermanus and Plettenberg Bay, where they are visited once a year by their children who have emigrated.

South Africa loses many people with technical and engineering skills, as well as certified accountants, medical doctors, academics, teachers, and other professional people. South Africa's financial management and engineering capacity deteriorates and its hospitals and health services experience severe staff shortages. South Africa loses the capacity to participate in the new knowledge industries on any signifi-

cant scale. As a result, the benefits of the high-technology revolution pass South Africa by.

The government encourages immigration of educated Africans from other countries on the continent to counter the brain drain. It discovers that there is no shortage of people with qualifications in the social sciences and humanities, but people with high-technology backgrounds are in short supply. Many of those with the required skills opt for countries such as the United Kingdom, the United States, and Canada. South African salaries and living conditions are not competitive.

Capital flight accompanies the rapid exodus of many of those from traditionally privileged classes. The government reintroduces exchange controls to counter this trend. The government forces down interest rates. Lending institutions keep short-term interest rates low, but long-term interest rates climb rapidly, in spite of a requirement that an increasing proportion of all pension and provident funds must be invested in government bonds.

As often happens when the economy is contracting, a general xenophobia takes hold as increasing numbers of unskilled people from unstable African countries migrate to South Africa. South Africans are generally hostile to all migrants, and increasingly oppose appointments of skilled Africans from other countries to any post in South Africa.

The failure of South Africa's economic strategy is a tragedy not only for the country, but also for the African continent. As Latin America and more Asian countries join the developed world with per capita incomes in excess of \$10,000, most of sub-Saharan Africa continues to have per capita incomes of below \$1,000 per annum. The rest of the world writes off Africa as a continent that cannot develop and implement sustainable economic and social policies.

While the government's social policies are laudable, the economic consequences are not what the radical Keynesians anticipated. The South African government eventually goes, cap in hand, to the IMF and the World Bank. These institutions demand that South Africa adopt a new version of GEAR, and scrap or reverse many of the more progressive programs adopted after the 1999 election. The government refuses. The economy spins further out of control. Racial tensions worsen as government blames the white capitalist class for causing the crisis and the white middle class blames the incompetence of black politicians and the new black middle class.



### **C. Growth and Reconstruction or “The Airbus Takes Off”**

After the May 1999 election, South Africa shifts from a country struggling to deal with its past to one with an exciting vision of the future, thanks to a number of crucial changes. South Africans seem to mature, having learned that even if they cannot deal with all the problems that face the country overnight, they must have strategies in place that will lead to a better future for all in the long run.

The government is well aware that if South Africa fails economically, Africa will be written off both by the West and the East. Anti-black racism, which has been just under the surface in many countries in both the West and East, will grow stronger and stronger. The government also understands that given the dangers of racial conflict and polarization within South Africa, high economic growth is essential to reduce inequalities while increasing living standards for most people. The government also realizes that reconstruction is essential to ensure that the poor, who are often excluded from the benefits of growth in a market economy, also benefit. In sum, it must act to ensure that economic growth is not just a passing phenomenon.

In arguing the case for economic growth, it is pointed out that under present circumstances the economy needs to grow at about 5% if unemployment is to decrease. Growth rates of below 3% in fact mean the growth of joblessness—something South Africa cannot live with in the longer run. Furthermore, rapid growth increases the government’s income and its ability to support the poor. For example, in the case of Malaysia, government income doubled every ten years without the need to increase tax rates. Rapid growth thus enables a government to deal successfully with poverty. It also creates conditions under which affirmative action policies can be applied successfully.

The government carefully considers obstacles to growth and takes decisive action to eliminate them. It decides on a number of highly urgent actions that must be taken immediately to facilitate more rapid economic growth. The general approach emphasizes delivery to the really poor, but takes care not to overstretch the capacity of government. It creates conditions that allow for rapid changes in the demographic profile of business and government. At the same time, the government ensures that established groups also share in rapid economic growth, while avoiding a culture of entitlement among the emerging black business class. It enables labor to protect workers against exploitation and make a positive contribution to development,

while also creating a dispensation in which the incompetent and corrupt can be fired. Labor is not allowed to hold the economy at ransom, nor is it marginalized, as was the case in East Asian Tiger countries. The government succeeds in taking all sectors on board without being dominated by any one of them.

While a political balancing act is one of the keys to economic success, the government's success is also well grounded in sound and well-coordinated economic policies. Immediately after the election, three steps are taken to improve South Africa's economic prospects. The first of these is a radically new approach to crime. The government realizes that if it wishes to retain the English criminal justice system (but not the tradition of torture to obtain confessions which was very much part of the old system), it could only work with a highly efficient police force and excellent prosecutors. After some attempts to reform both the police and the system of prosecutions, it realizes that these goals are only attainable in the longer term. It decides to counter the increasing tendency for kangaroo courts and the clamor in some quarters for an Islamic system of justice by changing the South African criminal justice system to be in line with that of continental Europe and Scandinavia.

The crucial reform in the criminal justice system is the obligation of the excused, who does not wish to remain silent, to tell his/her story before knowing the full extent of the state's case. The advantage of this system is that it costs far less to prosecute a criminal. Average costs in France, for example, are one-third that of the U.S. The court cases are also much shorter. For example, during 1998, only sixteen court cases in Holland were longer than two days.

In spite of strong resistance from a lobby of criminal lawyers who fear that their income may be adversely affected, the new system is implemented. This results in a higher rate of successful prosecutions than was achieved under the old system. Crime no longer pays so handsomely as it did when the rate of convictions for many crimes was extremely low. More funds are also made available to the justice and the police systems in order to ensure that there is an effective mobilization against crime. Soon perceptions with regard to crime change inside and outside South Africa.

Secondly, very successful attempts are made to differentiate South Africa from other emerging markets. For example, statistics are published which show that South Africa's level of debt is not rapidly increasing, as the published national accounts previously led one to

conclude. In addition, it also becomes known in the marketplace that if the future pension obligations of governments are included, then South Africa's debt position is dramatically more healthy than that of countries such as Brazil or Italy. And in the campaign to gain more tourists, not only the wildlife and beautiful environment but also the excellent infrastructure and the high quality services available in fields such as medicine are stressed.

Thirdly, partly as a consequence of the success of the anti-crime measures and the information campaign to differentiate South Africa, it is possible for the Reserve Bank to significantly lower the real interest rates, regardless of the fact that such a change in policy may undermine the Rand in the short term. The Rand does devalue quite dramatically initially, but subsequently recovers much of the ground lost thanks to increased export earnings and a decline in luxury imports. The lower real interest rates lead to a significant increase in gross domestic investments, both by local and foreign investors. A change in the taxation policy to only tax real and nominal interest leads to an increase in savings.

Finally, changes in public administration play a key role in establishing South Africa's unexpected economic success. The new government shows itself to be fully committed to implementing good policies effectively. It launches an effective campaign against corruption. It tempers affirmative action policies to ensure that government capacity does not suffer. New cadres of well-trained civil servants who can translate rhetoric into reality increasingly replace old bureaucrats and the first generation who, at times, were political appointees.

As a consequence of the above steps, which could all be taken within a relatively short period, the economic growth rate is soon exceeding 4% per annum. In the longer run, other changes in government policy and in the broader environment lead to even higher rates of economic growth.

While these policy changes alone would have contributed to significant economic development in South Africa, the African continent also experiences significant political and economic progress. While Africa was generally written off at the dawn of the new millennium, the continent now sees significant development. South Africa plays a key role in this development, and benefits considerably from it.

The tourist industry expands by 20%, as increasing numbers of tourists, particularly from Europe, discover South Africa. The country owes the success of the tourism industry largely to effective measures

to combat crime, a well-planned advertising campaign funded by the Ministry of Tourism and the Environment, and successful steps by the Ministry of Trade and Industry to raise the levels of service provided by the industry. The success of the tourism industry is crucial for economic growth in South Africa and a number of its neighbors. The government ends the virtual monopoly of South African Airlines (SAA) to fly directly from Europe to cities such as Cape Town, which also helps to promote tourism. More tourists visit South Africa by 2020 than Australia. The tourism industry creates millions of new jobs and helps to expand South Africa's foreign reserves dramatically.

While South Africa finds it very difficult to compete with labor intensive industries in countries such as China, it develops niche markets successfully in the clothing and textile sector where design is an important factor. Furthermore, South Africa's highly developed financial services sector benefits greatly from infrastructure development in Africa, which follows the write-off of debt for the poorer countries. The construction sector grows particularly rapidly because of lower interest rates in South Africa and new opportunities in the countries to the north. Crucial for overall economic development is a new emphasis on retaining and developing technical and information technology skills needed to fully exploit the benefits of the information age.

In education and training, the new Minister implements both longer-term visions and immediate improvements in management systems. The business sector gets involved in a very proactive way to assist with the improvements in the quality of education. The government enforces central examination standards similar to those found in many countries in the East, which ensures that the quality of students entering higher education improves dramatically. Effective management systems in education also guarantee that teachers who do not perform adequately leave the system. Education authorities focus in particular on promoting the work ethic, multi-lingualism, and the development of technical skills needed for the information age, even at the primary school level. Schools place considerable emphasis on new teaching technologies, especially in mathematics and science, where there is a shortage of qualified teachers. Schools also integrate new technologies to ensure that increasing numbers of learners have the skills needed to join the information age.

Priorities in education include establishing more Model C-type schools and providing bursaries and scholarships, which make it possible for people from disadvantaged backgrounds to attend these

schools. Education authorities launch a major drive to provide basic quantitative skills needed for the country to compete in high technology fields. A large number of the teachers who do not have the ability to meet the requirements of the new education system are replaced by young, dynamic teachers. Instead of lowering standards to the lowest common denominator, education authorities make sure that there are an increasing number of schools that can now compete with the best in the world.

Universities expand quite rapidly as an increasing number of well-qualified students leave the school system. Scholarships and affirmative action selection requirements enable any student with ability from a disadvantaged background to acquire a good education. Disadvantage is determined by economic and class criteria, rather than race. University standards, under threat at the turn of the new millennium, improve dramatically. Some universities, however, become "technicons" to provide more specific skills.

In the field of labor relations, participatory models, which were so effective in encouraging higher productivity in countries such as Japan, are enforced with new vigor. However, the government modifies high minimum wages and job security measures to maximize employment opportunities. While labor is given a much greater say, the government also ensures much greater labor market flexibility.

Rapid economic growth also helps to resolve conflict over applications of the Employment Equity Act, the use of procurement contracts to further affirmative action policies, and affirmative action in education. Thanks to a growth rate of between 5% and 6%, the complexion of management and the labor force in general changes rapidly. Measures to police implementation of the Employment Equity Act, resented by business, are scrapped. Instead, the Act facilitates integration into the higher echelons of the economy of those who have been traditionally excluded.

Within the welfare system, the government saves more than a billion Rand by eliminating fraud and corruption and by establishing more effective delivery systems. The means-test is abolished for old age and child grants. This leads to less corruption, more effective delivery of these grants, and higher overall savings. Central to the new approach is a basic income grant, which is paid out to women taking care of children on the basis of the number of people in the household. This money is paid out to all who register. Although the initial amounts are low, they are sufficient to make a difference. However, it

grows at the same rate as the real per capita income, and by the end of the first decade of the new millennium it has gone up by about 80%.

NGOs play a much more active role in delivering social services. Together with tax breaks for companies making a direct contribution to social welfare and education, this results in rapid improvement.

New monitoring systems play a major role in ensuring that government can evaluate the real impact of changes in economic and social policy. It soon becomes clear that the informal sector, if suitably supported by government, can provide a minimum living standard for all those who do not benefit from the rapidly expanding formal employment opportunities.

Increased resources available to both the private and public health sectors yield positive interaction between the two sectors, leading to improvement of overall health care available. While the emerging AIDS/HIV epidemic results in a massive human tragedy, much is done to reverse the rate of infection. Effective measures take care of the AIDS orphans. AIDS is dealt with in a humane but affordable and rational manner. Care is taken to ensure that the health care system is not destroyed by unreasonable expectations about health care for AIDS patients.

The private health sector and some academic hospitals in the public sector earn foreign exchange increasingly as patients from the First World countries take advantage of excellent health care at reasonable prices. Profits are ploughed back to further improve the quality of South African medical services.

As it becomes clear that these changes are real, South African companies that have moved offshore to escape rampant crime and a declining Rand return most operations to South Africa. They return primarily because of the burgeoning economy and the growth of some industries, and because of tax reform, which includes lower taxes and incentives for settling in South Africa. Tax reform is designed to attract high technology companies in particular, that are also attracted by the country's favorable climate, environment, high rates of growth, and good schools.

Institutional investment in South Africa increases dramatically. This is partly the result of different perceptions of South Africa given the changes in the investor climate following settlements in the Congo and in Angola. However, it also has much to do with a better understanding of South Africa's extremely low levels of debt compared to most other countries. Steps taken by the Reserve Bank to draw attention to

the health of the economy include placing most of the country's pension debt on the public record. Telkom, Transnet, and SAA are privatized to reduce South Africa's debt further, which enhances South Africa's standing in international markets, improving the country's international debt grading.

An unexpected bonus of the tourist boom is a significant increase in the number of foreign businessmen who decide to invest in South Africa and to spend part of the year in the country. The government targets particular types of foreign investors who may feel at home in South Africa, such as those from the United Kingdom, Germany, and India.

Given all these developments, it is not surprising that the Rand stabilizes. Although real interest rates remain much lower than they were in the late '90s, South Africans are now far more likely to retain their surplus assets in South Africa. The continuous devaluation of the Rand is no longer seen as inevitable. The savings and investment rate climbs gradually into the high twenties for the first time in more than two decades. Inflation remains below 4% per annum. All indications are that a growth rate in excess of 5% is here to stay.

While taxes are reduced, overall tax income rapidly increases, partly because of increases in taxes that are more difficult to avoid, such as Value Added Tax. However, an important factor is greater willingness on the part of taxpayers to pay. The government uses both the carrot and the stick to encourage people to pay their taxes. Business is encouraged to feel less threatened and to feel part of the new South Africa, and to understand the long-term benefits of its contribution. However, bad habits do not die easily, and the government has to impose stiff penalties on tax evaders. Once higher growth rates are achieved, tax income grows rapidly, and the government can fund social delivery more effectively.

Meanwhile, broader political developments in sub-Saharan Africa ensure stability on the continent, which also helps development in South Africa. Dramatic changes in Zimbabwe help to pull Africa back from a long and destructive period of warfare. South Africa uses its strong military position to ensure lasting peace in the Congo and Angola. This, together with a new, progressive, and democratic government in Nigeria, creates conditions for an African Renaissance in which Africa becomes an economic powerhouse in the first few decades of the new millennium. By 2020, Africa south of the Sahara has changed dramatically.

South Africa Development and Economic Community (SADEC) becomes an African equivalent of Mercosur, with South Africa playing the leading role, similar to that played by Brazil in South America. The new Zimbabwe also plays a crucial role, with Harare becoming for the SADEC region the equivalent of Brussels in the European Union. Trade barriers between SADEC countries are successfully removed. South Africa, at a very early stage, removes exchange controls and allows companies to list on other markets, once certain prudential requirements have been met. In spite of attempts by most SADEC countries to strengthen their own currencies, the Rand effectively becomes the common currency for the entire region within a decade. This gives momentum to negotiations to establish one currency for the entire region, the Afro, but this move does not immediately gain the support of the leaders with more nationalistic leanings. Meanwhile, South Africa benefits significantly from a major trade agreement signed with the European Union in 1999.

For South Africa, the dividends of peace in Africa are very dramatic. After the debt write-off (the contribution of the West to the settlement of the African conflicts), interest and capital repayments no longer take up the bulk of the budget of African countries. They can now receive new loans, which can be used more productively. Angola and the Congo join SADEC. In Angola, much of the additional finance is used to redevelop infrastructure and mining. South African companies play a major role in development in other African countries. In fact, South Africa provides a gateway for new technology, transport, and financial services to the SADEC region, thanks to its ability to deliver high quality services. Other companies, particularly those who emphasize partnerships with local entrepreneurs, are very successful in expanding to the rapidly developing countries to the north.

The African renaissance helps to increase the rate of economic growth in South Africa by an additional 1% to 2%, to guarantee average overall growth of more than 5% needed to ensure both growth and redistribution in South Africa, and encourages both economic and social development. Without the African renaissance, this growth would have been difficult to achieve. At the same time, the African renaissance would have been impossible without economic growth in South Africa.

By 2010, South Africa has virtually doubled its per capita income. When the 2012 Olympic torch is carried into the newly completed stadium in Cape Town, it is welcomed by spectators who know that their



country has made a dramatic transition from a divided, underdeveloped society to a modern, technologically advanced, economically prosperous and politically stable democracy.

### **VII. Reality, Fears and Dreams?**

Social scientists have been notoriously bad in their predictions of how societies are likely to change. Scenario planning is an attempt to get away from predicting and instead to investigate the future possibilities. The crucial question is not whether any of the scenarios told above are likely to happen. None of them are, in fact, likely to be realized. The crucial question is, rather, whether these stories are reasonable possibilities — whether things could turn out the way the story predicts. This is a question that depends on the paradigm in which one has been brought up and on the cultural and other biases one may have. The underlying assumption of a scenario exercise is, though, that there is no insurmountable obstacle to dialogue and understanding — that one can, in the end, agree on a scenario as a possible future, even though one may continue to disagree on what is the most desirable future.

A question of particular interest is what other possible social and economic developments could take place. What are the other stories that could be told? Clearly, there is a virtually infinite range of other outcomes possible. These specific stories have been chosen because they engage in a dialogue with current thinking in South Africa.

This essay has probably been overambitious. It has attempted to give an understanding of past patterns of social and economic development, of present realities, and of future possibilities. To do full justice to all these issues one probably needs to write a book rather than an essay, and one needs to offer a course rather than a single lecture. It is hoped that this exercise will nevertheless stimulate discussion and encourage critical thinking not only about the South Africans' understanding of the past and present, but also about our dreams for the future. ●

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**Notes**

1. Tycho de Brah was an astrologer who advised the king of Denmark both in matters of state and with regard to personal questions—e.g., on which day his daughter should get married. He recorded very accurate observations of the movements of the planets, which enabled Copernicus to formulate his theories of the elliptical movement of the planets around the sun. However, when he predicted the future, his scientific observations surely were of as limited value as are the impressive *time series* data on which the modern day econometricians rely.
2. Lenin drew on some of the insights of J.A. Hobson.
3. In South Africa, the term refers both to those committed to the free market—neo-liberals in today's terminology—and also, as is the case in the United States, to those with a strong social conscience and an inclination to welfare state types of policies.
4. This is the name that was adopted for the African reserves by critics of the government as an alternative to the official designation of "Homelands."
5. Nowadays about 40% of all Africans are unemployed. In fact, in surveys, black South Africans see unemployment as the biggest single social problem.
6. The recent census probably undercounted the population by at least a million, so let us say that the actual population is somewhere between 43 and 44 million.