THE ECONOMIC AND SOCIAL RESEARCH INSTITUTE

POVERTY, INEQUALITY AND RECONSTRUCTION IN SOUTH AFRICA

Brian Nolan

October 1994

Working Paper No. 54

Poverty, Inequality and Reconstruction in South Africa

1. Introduction

South Africa has for many years been notorious for its institutionalised inequality between race groups and highly skewed distribution of income and wealth. The government which has come to power in 1994 after the first democratic elections faces enormous challenges in redressing the deep-seated inequalities which are the legacy of the apartheid regime and its forbears. The aim of this paper is to assess the scale of the task and way it is being tackled. First, the available evidence about the extent of inequality and poverty in South Africa is reviewed. The macroeconomic background and major constraints facing the new Government of National Unity are then briefly described. The emerging approach being taken by that government to post-apartheid reconstruction and development is then examined. Finally, some implications for the prospects for poverty and inequality are drawn out.

2. Income, Inequality and Poverty in South Africa

Average Income

South Africa is an "upper-middle-income country" in terms of GNP per head, on the basis of the country classifications employed by the World Bank. With GNP per head of $2,670 in 1992, South Africa just attains membership of this category, putting it alongside countries such as Brazil and Mexico and above the Russian Federation or the Czech Republic. The average GNP per capita for the high-income industrialised countries is very much higher at $22,160 in 1992, with Ireland just attaining membership of this group at $12,210. While South Africa ranks 89th out of 132 countries in terms of GNP per head, it is remains well below the levels attained by the industrialised countries.[1] It is in its African context, particularly Sub-Saharan Africa, that South Africa's income per head stands out as exceptionally high. Most other African countries are in the World Bank's "low-income" category, although five are in the "lower-middle-income" group and Botswana and Gabon share South Africa's ranking in the upper-middle-income one. The mean GNP per capita of the countries of Sub-Saharan Africa excluding South Africa is only about one-seventh of the

[1] See World Development Report 1994, Table 1, p. 162.

level reached by South Africa itself.

Average GDP per head can of course be a misleading indicator of the general living standards of the population, and this is nowhere more true than in the case of South Africa. It is because of the disparities in income and living standards across the population, particularly between racial groups, that South Africa has been widely seen as a special case. It is therefore necessary to outline the scale and nature of these disparities, and the poverty with which they are associated. This involves discussing in turn:

- the distribution of income among households and racial groups,
- the scale and racial distribution of income poverty,
- the wider inequalities in access to health care, education, and housing,
- the scale and racial incidence of unemployment,
- the distribution of wealth,
- the differentials produced by socio-economic inequality in such basic indicators of quality of life as life expectancy and infant mortality, and
- the impact of income and other inequalities on South Africa's position in terms of "human development".

A brief discussion of the terminology to be employed is necessary. The official practice under apartheid was to categorise the population into what were seen as racial or ethnic groups, namely "White", "Asian" (or Indian), "Coloured" and "Black". The continued widespread use of such a categorisation for analytical purposes reflects the fact that disparities between these population groups is likely to remain of central interest for many years and that data is generally compiled on that basis. The terminology itself can be problematic: for example, some recent literature refers to the majority population grouping as "African", with the term "Black" applying instead to all those not categorised as White. Here however we use what were the official terms, which are still employed by the Central Statistics Office and are apparently most common in everyday use.

The Size Distribution of Income

Until recently, the study of the distribution of income among persons, families or households in South Africa has been severely hampered by the paucity of information about the incomes of blacks. The difficulties are illustrated by McGrath's (1983, 1984) detailed and comprehensive study of the distribution of income among households, which related to 1975. This employed data from the 1970 Population Census for the white, Coloured and Asian population groups, which included a question to each individual about total income (before tax), but faced the major obstacle that the Census did not then cover the black population. It was therefore necessary to estimate incomes for black households from a variety of other sources, primarily household surveys with limited coverage: this was acknowledged as a major weakness, though the sensitivity of the overall results to different assumptions about the shape of the black income distribution was tested. Other difficulties were that the Census information for the other three population groups related to families rather than households, related to income category rather than income, excluded single individuals, and had to be extrapolated from 1970 to 1975 since most information for the black group was available for the latter date.

As far as the distribution of income was concerned, McGrath found that in 1975 the top 20% of South African households/families had 72% of total income while the bottom 40% had 5%, and the Gini coefficient was 0.68.[2] He concluded that this confirmed "the intuitive feeling that South Africa must have one of the most unequal distributions of income in the world" (1984, p. 56). (A comparison of more recent figures for South Africa with other countries is presented below). The Gini coefficient for the White group alone was 0.36, similar to those generally in Western countries. The Gini was higher for the black, Coloured and Asian groups at 0.47, 0.51 and 0.45 respectively, but the highly uneven distribution *between* the racial groups made a major contribution to overall inequality. A decomposition analysis using the Theil summary inequality measure showed that inequality within population groups accounted for 57% of total inequality and that between groups for 43%.[3] We focus on the disparities between racial groups shortly, having reviewed what is known about the overall distribution

[2] The Gini coefficient is a summary measure of inequality widely used in income distribution studies, varying from 0 (which would indicate perfect equality) to 1 (maximum inequality).

[3] The Theil is more suitable than the Gini summary measure for such decomposition analysis. The underlying decomposition is given in McGrath (1984) Table 14, p. 62; the percentage contribution for the within-group component is incorrectly stated there to be 51.7% (instead of 57.1%), an error repeated in Whiteford and McGrath's summary (1994, p. 18).

of income.

Since McGrath's path-breaking study, income information from various sources has been used in a number of exercises constructing Social Accounting Matrices, with estimates of the distribution of income among households as a by-product. Using this approach, for example, de Lange and Van Seventer (1986) estimated the Gini coefficient for 1978 at 0.66, while Mills and Koekemoer (1993) estimated that the top 20% of households had 72% of total income in 1978 and 67% in 1988, compared with 4% and 7% respectively for 1988. The official Central Economic Advisory Service (1993) has presented estimates of the Gini coefficient at between 0.63 and 0.60 from 1961-1991: no description whatsoever is given of how these were constructed, but they are apparently also based on the SAM models. The SAMs have not had the household income distribution as their primary focus, and appear likely to be less reliable than McGrath's detailed study. A series of studies by Simkins (1979, Urban Foundation 1991) has used various sources of information to construct income frequency distributions, but has focused on the distribution among earners or on the racial distribution (and on poverty, as discussed below), rather than the household income distribution.[4]

The recent income distribution study by Whiteford and McGrath (1994) has been able to take advantage of the fact that the 1991 Population Census did cover the black population. Unfortunately, coverage was still incomplete because Census data was not available for the so-called "independent" homelands set up under the apartheid regime, the TBVC states,[5] which contain about one-quarter of the black population. Income/expenditure household surveys from various years had therefore to be used to estimate frequency distributions for each of these states, extrapolated to 1991. For South Africa excluding the TBVC states a 10% sample from the Census was used. The major problems with that source were that (as in 1970) respondents were asked to identify an income range category rather than state an exact

[4] Devereux (1983) also followed Simkins (1979) approach to constructing the income distribution among recipients, producing estimates for 1980. The methodology followed by Simkins (1991) in constructing the Urban Foundation Income Distribution Model was based on the household as recipient unit, but the aggregate size distribution was not analysed.

[5] That is Transkei, Bophuthatswana, Ciskei and Venda.

income figure, and that 11% of households reported zero incomes. In estimating decile shares and inequality measures it was therefore necessary to estimate the distribution of households within each income category, while those reporting zero incomes were distributed over the lower income ranges.

Whiteford and McGrath's results show a Gini coefficient of 0.68 for the distribution of (before-tax) income among households in South Africa in 1991. This is the same as McGrath's estimate for 1975, and the Lorenz curves for the two distributions intersect, suggesting no unambiguous increase or decrease in income inequality over the period. The decile shares for 1991 are shown in Table 1, with the top decile having 52%, the top 20% having 70%, and the bottom 20% of households having only 1% of total income. Whiteford and McGrath draw attention to the possible understatement of income from subsistence agriculture in the Census, which even after their treatment of those reporting zero incomes could result in a downward bias in the share of the lowest income group (and in the share going to the black population group). (A large-scale national household survey was conducted in South Africa in 1993, sponsored by the World Bank, will provide an alternative source for analysis of the distribution of income, racial shares and poverty with which the Census-based results can be compared).

Whiteford and McGrath refer to the many problems which arise in making income inequality comparisons across countries, and draw on the work of Fields (1989) to compare South Africa's Gini coefficient with 37 other developing countries for which there is what he considered to be reasonably satisfactory data. They note that South Africa has a higher Gini than any of these countries, and that this is accentuated when one focuses on countries at a similar level of development. Some of the data for other countries used for comparative purposes by Whiteford and McGrath are still unsatisfactory, for example relating to much earlier dates, in some cases as long ago as the late 1960s and early 1970s. Reliance on a summary measure can also have limitations. It is therefore useful to put their household distribution for South Africa in perspective by comparing it in Table 2 with some developing and developed countries for which more recent data have been published by the World Bank.

Some major problems in attaining comparability remain, in particular the fact that the available data for many other developing countries relates to household expenditure rather than income, in some cases refers to the distribution of per capita income or expenditure among persons. Nonetheless, a general impression of South Africa's relative position may be gleaned. The gap between South Africa and the developed countries is very large - even in the USA, which has a relatively high degree of inequality among the advanced industrial countries, the share of the top decile for example is only about 25% compared with over 50% in South Africa. The other African countries shown have distributions much more like South Africa's, but the share going to the top 10 or 20% is still highest and that going to the bottom 20% lowest in South Africa. In Brazil and Chile, among the most unequal Latin American countries, the shares going to the top of the distribution are about as high as in South Africa, but the share of the bottom group is not as low. Apart from the variation across countries in the measure employed, the data source for the South African estimates differs from those of the other countries, all of which are based on household surveys, and the caveats noted about Whiteford and McGrath's Census-based estimates of the incomes of the lowest group must be recalled. Without attempting any global ranking, then, South Africa clearly has a very high level of income inequality compared with other developing countries.

Unlike previous South African studies, Whiteford and McGrath were also able to take differences in household size into account in assessing the extent of income inequality. Dividing household income by the number of persons in the household, they calculated the Gini coefficient for the resulting distribution of household per capita income. The results showed a slightly higher Gini than for unadjusted income, at 0.71, suggesting that poorer households are on average larger than higher-income ones. Simply dividing household income by the number of persons relying on it is a rather crude way of adjusting for differences in needs. However equivalence scales, which are intended to take the differing needs of children versus adults as well as economies of scale in consumption into account, have not been developed or applied in South Africa as yet so Whiteford and McGrath did not look at the distribution of equivalent income.

Like McGrath's earlier study they did look at inequality within each population group and carry out a decomposition of overall income inequality (of unadjusted rather than per capita income) using the Theil index. Although the overall level of inequality in 1991 using this measure was again little different from McGrath's estimate for 1975, the between-group contribution in 1991 was now substantially lower, at 25% rather than 43% of the total, offset by a considerably higher level of inequality within both the African and White groups. That was also reflected in the Gini coefficients for these two groups: the Gini among African households in 1991 was 0.62 compared with the 1975 estimate of 0.47, while for Whites the Gini increased from 0.36 to 0.46. The factors advanced as explanations for this changing pattern will be discussed following a review of the evidence about the distribution of income among racial groups, to which we now turn.

Racial Distribution of Income

While the distribution of income among households is highly unequal, it is above all the racial character of this inequality which marks South Africa out as a special case. Whiteford and McGrath's study includes estimates of the share of each racial group in total personal income for 1991 and these are shown in Table 3,[6] together with alternative estimates for around the same date, using different methodologies and data sources, recently produced by Simkins (Urban Foundation 1991) and Van der Berg (1991).[7] The share of each group in the population in 1991 is also given. There is some variation across the estimates, with Whiteford and McGrath showing a considerably higher share going to whites and a lower one going to blacks than the other two studies.[8] While blacks accounted for 75% of the population they are estimated to have had between 30%-35% of total income. Whites, on the other hand, had between 53-60% of total income while comprising 13% of the population. The Asian share of total income, at about 4%, also exceeds their population share of 2.6%, while the Coloured

[6] The figures presented in Whiteford and McGrath's text (eg. Table 5.2, p. 35) are based on household incomes and are apparently less reliable than those given in an appendix (Table G.1, Appendix G, p. 90), based on individual incomes in the Census, which are therefore used here. I am grateful to Andrew Whiteford for guidance on this point.

[7] Van der Berg calculated earned income going to each group using employment and wage data, and combined this with figures on non-earned income from household surveys, with total income from each source adjusted to accord with national accounts aggregates. Simkins relied primarily on household survey data.

[8] They suggest that this may be attributable to some understatement of income from subsistence agriculture and the informal sector in the Census, on which they rely, particularly affecting African incomes. It is not clear however that the alternative sources used by Simkins and Van der Berg are likely to be much more reliable for those income sources.

group has 7-9% of total income while accounting for almost 9% of the population.

On trends over time, a good deal more evidence is available for racial income shares than for the size distribution, though given the data sources it is difficult to ensure comparability. In terms of methodology Whiteford and McGrath's estimates are most readily comparable with those produced by McGrath (1983) for 1960, 1970 and 1980, also shown in Table 3.[9] These suggest that the share of the black population group in total income was static in the 1960s, rose substantially over the 1970s, from 20% to 25%. Whiteford and McGrath then show a continued increase to about 30% from 1980 to 1991. The estimates by Simkins and Van der Berg both indicate a more substantial redistribution from whites to blacks in the second half of the 1980s. (An earlier study by Simkins (1979) also showed an even more substantial redistribution than McGrath in the same direction in the first half of the 1970s.) Despite this variation, the evidence is consistent in suggesting that the share of blacks in total income has been rising significantly since 1970 at the expense of whites. This is a striking contrast to the years from 1946 to 1970, estimates by McGrath for the earlier date suggesting that the share of blacks fell considerably over that period.

Racial group shares in total income must be seen in the context of population growth in each group, since the share of blacks in the population has been rising and that of whites falling over time. The combination of relatively slow population growth and an increasing share in total income for whites meant that their real income per capita rose much more rapidly than that of blacks between 1946 and 1970. On the basis of McGrath's income share estimates, average white incomes went from 11 times to 15 times those of blacks over that period. From 1970 to 1991 black per capita incomes rose more than that of whites, but even so Whiteford and McGrath's figures suggest that this was sufficient only to bring average white incomes back to about 12 times the black average in 1991. Alternative estimates once again suggest that the gap between per capita incomes of whites and blacks was narrower than that by 1990, with a more pronounced decline from 1970.[10]

---

[9] McGrath also produced estimates for 1975, not shown in the table.

[10] See for example Van Wyk (1989).

The more rapid real income growth and increasing overall income share for blacks since 1970 appear to be attributable primarily to relatively rapid real wage increases for Africans in non-agricultural employment. This in turn was associated with the growing shortages of skilled labour and the increased organisation and assertiveness of non-white labour. Reflecting these pressures, a major relaxation of institutionalised racial discrimination in the labour market took place during the 1970s and 1980s. Legal restrictions on blacks organising in trade unions were phased out, as was the system whereby certain types of jobs were reserved for whites, and freedom of movement was also increased. Rising average real wages were a product of both upward mobility of blacks by occupation, and reduced discrimination in pay within occupational grades. One estimate suggests that the extent of racial pay discrimination fell by about half between 1965 and 1985. By the latter year, 21% of the difference in mean wages between blacks and whites was *not* explained by differences in occupational grade and gender, compared with 45% in 1965, this residual conventionally being taken to represent pay discrimination per se.[11] It is therefore now the distribution of workers across grades, rather than unequal pay within grades, which is responsible for most of the difference in average earnings between blacks and whites.

Income Poverty

The analysis of income poverty in South Africa has been hampered in the same way as that of the household income distribution by the limited data available, with most researchers having to rely until recently on household surveys covering limited areas. Since the 1970s, the Bureau of Market Research (BMR) attached to the University of South Africa has carried out surveys in specific areas and estimated the number of households in each with incomes below what it terms the Minimum Living Level (MLL). This is an income poverty line constructed by the BMR costing a basket of goods which is deemed necessary "if members of a family are to maintain their health and have acceptable standards of shelter, hygiene and sufficient clothing for their needs" (Nel and van Helden 1993 p. 44). It includes allowance for expenditure on food, clothing, rent, water, electricity, fuel and light, washing and cleaning materials, transport, education, medical care, and replacement of household equipment. The BMR recalculates the MLL for 26 areas surveyed twice a year, with different lines for each

[11] Knight and McGrath (1987).

of the areas surveyed for households of different size and for each racial group, and presents figures on the numbers falling below the line applying to their area/size/racial group. This poverty line has no official status but has frequently been employed in some form by other researchers, with some variation in the way in which it is applied - for example, some apply a single line, most often derived from the BMR lines for urban blacks, rather than lines varying with racial group and urban/rural location.[12]

McGrath (1983) made the first attempt to quantify the extent of poverty for the whole of South Africa, on the basis of the same combination of Census and survey data which he used to estimate the distribution of household income. Following the BMR he applied different lines for whites, Coloureds, Asians, urban blacks and rural blacks. His results showed 44% of all households, 4% of whites, 25% of Asians, 51% of Coloureds, and 54% of blacks were below the relevant poverty line in 1975. Simkins (1984) subsequently reworked McGrath's data using the median urban MLL for Africans as the poverty line for all households. On this basis he estimated that 54% of all South African households in 1975 were below that MLL, made up of 3% of white households, 30% of Asians, 52% of Coloureds and 68% of blacks. The main difference made by using a common poverty line was that a much higher proportion of rural blacks were in poverty, since the BMR urban poverty line was considerably higher than the rural one. On the basis of this reworking of McGrath's figures and his own analysis of incomes in the homelands in 1980, Simkins tentatively estimated that about half the population of South Africa, 60-65 of blacks and over 80% of those living in the homelands were below the corresponding line in 1980. Wilson and Ramphele's (1989) subsequent influential study provides a wealth of analysis and insight coming out of the Carnegie Inquiry into poverty in South Africa, but relies on Simkins' figures for estimates of aggregate poverty rates.[13]

More recent estimates by Simkins (Urban Foundation 1991) based largely on BMR survey data and the national accounts aggregates suggest that about 42% of households were below

[12] An alternative poverty line, produced by the University of Port Elizabeth, is used in some studies.

[13] See p. 17.

a similar (urban black) MLL-based poverty line in 1985 and in 1990. As in his earlier study, the data available to Simkins did not allow him to take household size into account, so a figure for the "average" household size was applied to all households. The BMR itself has also produced estimates of the overall percentage of persons living "below subsistence level" in 1989, which it puts at 45% (1993), though it is not clear precisely how the poverty line has been applied or how a national figure has been derived from its various surveys in different areas. The racial breakdown for this estimate is that 2% of whites, 11% of Asians, 28% of Coloureds and 53% of blacks were below the MLL. The BMR estimates for 1989 are very similar to those produced by Simkins for 1990, but given the differences in data used it is not clear what weight should be placed on the decline in poverty these show compared with the 1975 McGrath/Simkins figure.

The study by Whiteford and McGrath (1994), already described above, includes an estimate of the percentage of households below the MLL. Like Simkins they employ the MLL for urban black households, but were in a position to differentiate by household size rather than apply the line for the average size to all households. Their results showed 49% of households below the poverty line. Interestingly, they also showed that simply applying the MLL for the average household size to all households made little difference to the proportion in poverty: on that basis 51% fell below the line. As far as racial variation in risk was concerned, they present a breakdown of households rather than persons and found 7% of white households, 18% of Asian, 38% of Coloured and 67% of black households below the poverty line. They caution that the application of the urban poverty line to rural areas may overstate poverty there, since living costs such as rent and transport may be lower there.

The overall percentage in poverty and the poverty rate for each group found by Whiteford and McGrath is higher than the estimates by Simkins and the BMR. They argue that a comparison between the McGrath/Simkins estimate for 1975 and their figure for 1991 is closest in terms of underlying data: this shows a decline in the poverty rate for Asian and Coloured households, a rise for whites, and little change for blacks, with the overall household poverty rate falling from 54% to about 50%. However, as they point out, the degree of estimation of black incomes required for 1975 could introduce a wide margin of error in the poverty rate for blacks at that date (with the poverty headcount probably more sensitive than the income distribution to such errors). Their own 1991 results are clearly affected by the high proportion of reported zero incomes in the Census, as well as the estimation required for the TBVC states not covered by the Census.

The most important conclusion to be drawn from the available studies therefore relates not so much to levels and trends in poverty as to the dramatic variation in the risk of poverty across racial groups, and the associated geographical variation. Examining the sensitivity of the results to the location of the poverty line, Whiteford and McGrath found 32% of households to be below a poverty line set at three-quarters of the MLL, and 25% below half the MLL., compared with 49% below the MLL itself. In each case, though, the poverty rate in the TBVC states was more than twice that in what was then the Republic of South Africa. Similarly, the BMR studies consistently show a much higher poverty rate in rural than urban areas, with the highest poverty rates found in the former homelands and in particular the "independent" TBVC states, the black labour reserves created by apartheid. Large households, those headed by a woman, and those entirely reliant for income on selling their labour are at particularly high risk of poverty. It is also worth noting that the contribution of agriculture to incomes in the former homelands is surprisingly low, given that their populations are overwhelmongly rural - a 1987 survey in Venda, for example, showed that only 4% of income was from agriculture although 96% of its inhabitants live in rural areas.[14]

Inequalities in access to Health Care, Education, and Housing

The impact of income differences on the living standards of racial groups in South Africa is exacerbated by the pattern of state spending, particularly on health care, education and housing, which has been heavily skewed in favour of whites. It is therefore worth looking briefly at each of these areas in turn.

The state spends about twice as much per capita on health care for whites as for blacks. Facilities are concentrated in urban areas and even there informal settlements are poorly served. As far as access to and quality of care is concerned, this is compounded by the much higher private health spending of whites, much of it in the form of employer-subsidised health

[14] see Ligthelm (1993).

insurance. Over two-thirds of whites have health insurance, compared with about one-third of Asians and Coloureds and only 7% of blacks. While aggregate health spending is over 6% of GDP, relatively high for a country at South Africa's level of GDP, over half this total is private spending. Public spending is itself biased towards hospital-based services rather than primary health care, again to the particular disadvantage of the black rural and peri-urban population. Health accounts for 10% of current State spending, which is not particularly high, but it is the pattern rather than the level of public health spending which contributes most to exacerbating racial inequalities.

Education spending is a good deal more racially skewed than health, with public spending per white pupil in 1990 four and a half times higher than the corresponding figure for blacks.[15] Facilities are much poorer for blacks, teachers much less well-qualified, and pupil-teacher ratios much higher - about 2.5 times those for whites at primary level and 3 times at secondary level.[16] Educational attainment reflects these differences as well as more deep-rooted socio-economic inequalities: only 11% of black students compared to 70% of white and Asian students sitting for the secondary school matriculation examination pass. Comparisons of expenditure per pupil take no account of differences in participation rates, which further bias the allocation of resources against non-whites. Most strikingly, only 13% of black children who enter the school system reach matriculation. School participation rates by racial group in the mid-1980s are shown in Table 4: only 20% of black secondary school age children were actually attending school, compared with 89% for whites. As in the case of health, the proportion of GDP going on education is relatively high, at about 7%, and it accounts for a good deal more - about 24% - of current public spending. The scope for narrowing racial differences in public spending by increasing the total are therefore limited: ceteris paribus, equalising public expenditure per head would entail spending about 40% of the budget on health.

As far as housing and related services are concerned, there is a stark difference between basic

---

[15] Lachman and Bercuson (1992)

[16] World Bank (1994) p. 19 gives pupil-teacher ratios at primary level of 20:1 for white pupils and 49:1 for black, and at secondary level 15:1 for whites and 45:1 for blacks.

indicators for white urban residential areas and conditions in black urban and rural areas. Public expenditure on infrastructure and provision of services in white areas compares favourably with cities in the more prosperous developed countries, while a high proportion of blacks lack electricity, have poor access to water, inadequate sanitation, and are grossly overcrowded. While conditions in many black townships are often very poor, those in informal settlements and in the former homelands are generally worse. Estimates put the overall housing shortage currently at about 3 million units.

Unemployment

Unemployment, as a major cause of poverty and racial socio-economic disparities, merits a (necessarily brief) separate discussion. The measurement of unemployment in South Africa is fraught with difficulties, given the nature of the economy and the available statistics, and has been a highly contentious topic.[17] The figure which tends to be most widely quoted currently is that more than 40% of the labour force do not have jobs in the formal sector of the economy. This is calculated by subtracting the number in formal sector jobs from the estimated total number of economically active persons, the latter itself being difficult to measure accurately. The greater problem, though, arises with the treatment of the informal sector, including subsistence agriculture. Various estimates suggest that perhaps up to half those without formal employment are working to a greater or lesser extent in the informal sector,[18] though most of those involved do not appear to be earning enough to keep them out of poverty.[19] Official estimates of unemployment from the periodic Current Population Survey, seeking to measure those available for work, have been heavily criticised. The 1991 Population Census itself produced an unemployment rate of 18%, but excluded those not actually seeking work who may have been discouraged from job search, and did not cover the "independent" homelands. However, the racial pattern shown by the Census is of interest: the unemployment rate for whites was 4%, for Asians 13%, for coloureds 17% and for blacks 23%. The unemployment rate in the "independent" homelands is much higher than the rest

[17] Notably the controversy sparked off by Simkins' (1976) estimate of unemployment in the mid-1970s, and later critiques of the CPS estimates which were introduced as a result.

[18] See Barker (1992) p. 76, Roux (1991)

[19] See Ligthelm (1993) p. 68.

of the country.[20] Including the TBVC states and taking underemployment and discouraged workers into account would undoubtedly have most impact in raising the rate for blacks. The non-white labour force has been growing at a much more rapid rate than the white one in recent years, so that without a substantial increase in the rate of labour absorbtion both the level of unemployment and the racial disparities in its incidence will grow.

The Distribution of Wealth

Underpinning the distribution of income and income poverty is the distribution of wealth. As is generally the case in developed as well as developing countries, information on wealth holdings is even more difficult to obtain than on incomes. However McGrath (1985) has applied the estate mortality multiplier method, widely used in developed countries, to South African data for 1974/75.[21] This produced estimates of the distribution of total wealth among adults, which showed the top 5% of wealth-holders having 88% of total wealth. This is a far higher degree of concentration than shown by figures for the industrialised countries, where estimates of the share of the top 5% generally range between 35-55%. The ownership of farm land and shares in quoted and unquoted companies was found to be particularly highly concentrated. Whites were estimated to have at least 94% of total wealth, substantially higher than their share in total income, with Asians and Coloureds rather than blacks accounting for almost all the remainder. Focusing on the distribution within racial groups, the top 5% of whites held about half of total white wealth, a level of concentration similar to some industrialised countries: wealth was more unequally distributed among Asians and Coloureds because a much higher proportion had negligible wealth holdings.

Life expectancy and infant mortality.

We conclude this section by focusing on perhaps the most telling consequence of the socio-economic disparities which have been described, namely the differentials in those most basic indicators of quality of life, life expectancy and infant mortality. Life expectancy at birth for whites is currently about 73 years, while for Asians the figure is 68, for Coloureds 62, and

---

[20] see Roux (1991).

[21] The data on estates available to McGrath were for one of South Africa's then four provinces, Natal, but the distribution of estates by value was very similar to that for the whole country (McGrath 1985 p. 20).

for blacks 61.[22] Whites thus enjoy a life expectancy similar to that of the Western countries, while blacks have shorter life expectancy than in many countries at lower average income levels - though still higher than many other African countries.

The overall infant mortality rate in South Africa is about 72 per 1,000 live births, higher than in many countries at a similar level of GDP per head: Unicef have stated that the South African rate is about twice what would be expected of a country with its average income level.[23] Infant mortality among white South Africans is at the levels attained by the advanced industrialised countries, about 8-10 per 1,000. Asians have a slightly higher rate than Whites, that for Coloureds is about five times as high, whereas the rate for blacks could be as much as ten times as high - higher than in many other African countries at much lower levels of average income.[24] The highest rates appear to be for blacks in rural areas, with the rates in urban townships generally considerably lower, though the position in informal settlements is not clear.

"Human Development"

The shortcomings of GDP per capita as an indicator of national well-being - of which South Africa provides an excellent illustration - have motivated the production by the UNDP of what is termed the Human Development Index (HDI). The HDI is a composite of three components of human development, namely life expectancy, literacy/schooling, and GDP per capita (in purchasing power terms). In each case a minimum and maximum level of achievement is specified and a country's position relative to those measured, the HDI being an average across the three dimensions.[25] While questions can be raised about the construction of the index and indeed about whether combining different dimensions in a

---

[22] See Lachman (1992).

[23] SAIR (1994) p. 127.

[24] Offial figures for infant mortality by racial group are no longer produced, and the latest official figures - for 1990 - exclude the "independent" homelands. The reporting of births and deaths for rural blacks is in any case known to be poor. The figures quoted are estimates from the recent study by Bradshaw, Dorrington and Sitas (1992).

[25] For details of the construction of the HDI, and how it has been altered since its introduction in 1990, see UNDP (1994), Chapter 5.

single index is the best route to follow, the data brought together by the UNDP gives an interesting perspective on South Africa's position relative to other countries and on disparities within the country.

On the HDI, South Africa ranks 93rd. from the top out of 173 countries for which the index is calculated in the *Human Development Report 1994*. This contrasts with its rank by GNP per capita among these countries, which is 60th. This is not the biggest gap between HDI and GNP rankings - oil-rich countries such as Colombia, Oman, Libya, Saudi Arabia and ?United Arab Emirates and Gabon move down the rankings even further when the former rather than the latter is used as measuring-rod. Nonetheless, South Africa does significantly less well than many of the other countries at similar levels of average income in the other two aspects captured in the index. The report highlights the extent to which this reflects disparities between racial groups within the country by presenting separate results for whites and blacks. These show that if white South Africa were a separate country, it would rank 24th. in the world, just after Spain, but black South Africa would rank 123rd., just above Congo: "Not just two different peoples, these are almost two different worlds".[26]

3. Macroeconomic Background and Constraints

Before discussing policies to alleviate poverty and redress deep-seated racial inequalities in South Africa, it is necessary to appreciate the constraints within which these policies must be formulated in terms of the macroeconomic background and prospects. After years of stagnation a resurgence of economic growth is anticipated, but rapid population growth, the already high level of taxation and government expenditure, and the substantial fiscal deficit and debt burden inherited by the Government of National Unity severely restrict room for manoeuvre.

The rate of GDP growth achieved by South Africa from the end of the Second World War to 1970 was on average 5% per annum. As Table 5 and Figure 1 show, the annual rate of

[26] UNDP (1994) p. 98.

growth fell away during the 1970s and 1980s to only 1.5% by the second half of the 1980s and turned negative in the early 1990s. This closely reflects the trend in output of manufacturing industry, where as the table shows an even more pronounced decline was seen from average growth rates of 8-9% in the 1950s and 1960s to 6% during the 1970s and only about 3% during the 1980s. The interpretation of this pattern of growth, and in particular its relationship with socio-political developments, is among the most controversial topics in academic debates among social scientists studying South Africa. Only the briefest flavour of these debates can be given here.

The South African rate of growth in the 1945-70 period has generally been presented as exceptionally rapid by international standards. Whether this "apartheid boom" took place in spite of, or was rather fuelled by, the implementation of apartheid and associated state economic policies (from 1948) has been what most sharply divided those writing from a conventional liberal versus a radical/Marxist perspective. The former tended to emphasise the economic costs of discrimination in the labour market and the distortions associated with expanded state regulation and intervention in the economy, whereas the latter saw apartheid and related policies as functional for capital, depressing black wages and boosting profits.[27] The prior question, however, is whether the rate of growth achieved over that period was in fact so exceptional. Moll (1991a, b) argues that the South African economy enjoyed many advantages over that period, both in terms of highly favourable external economic conditions and internal resources and growth potential: he concludes that relative to either pre-1948 experience or other similar medium-sized developing countries, its growth performance in the 1950s and 1960s was mediocre rather than outstanding. The choice of comparators is obviously crucial in assessing relative growth performance, and it suffices here to note that the characterisation of South African growth over this period, and even more so the impact of apartheid and associated policies, remain in question.

Characterising and interpreting the post-1970 slow-down is equally problematic and contentious. The world trading environment was of course much less favourable from the early 1970s, particularly damaging for a country so dependent on exporting mining and

[27] For a review of these debates see Nattrass (1991).

agricultural products, but the contribution of specifically South African factors is hotly debated. The stagnation of the 1980s in particular has often been seen as the "crisis of the apartheid state", which can once again be interpreted from either a liberal or a radical/Marxist perspective. Mainstream economists see the chickens coming home to roost as education and labour market policies, "big government" and trade protection hinder growth, while for the radical/Marxist stream it can be seen as an organic "crisis" such that of the 1940s which lead to the implementation of apartheid but now requiring a different response.

Once again it is essential to place South Africa's experience in comparative perspective, and the choice of comparators and of start and end-point affect how poor its performance appears. For example, over the 1970-85 period GDP growth for South Africa was not very much slower than for the other "similar" developing countries selected by Moll. However, focusing on the 1980s and early 1990s, when real GDP growth averaged only 1% per annum, it would be difficult to see South Africa's record as other than dismal.[28] Real GDP fell in 1990, 1991, and 1992, the decline in 1992 of over 2% being partly attributable to the impact of drought on the agricultural sector. In 1990-1992 output in the manufacturing sector was actually lower than it had been in the early 1980s. In 1993 real GDP rose by about 1%, but much of this expansion was due to the rebound in agricultural production following improved rainfall.[29] Private investment remains stagnant and investment by the state and parastatal sector has been falling since the early 1980s. South Africa has thus experienced a long-term secular decline in growth exacerbated by recent deep recession.

Factors most commonly advanced as contributing to this stagnation include:
- the impact of the international financial sanctions implemented from 1985 and consequent need to run a current account surplus on the balance of payments by restricting growth and

---

[28] To put this in perspective, over the 1980-91 period real GDP growth in the World Bank's low and middle-income countries averaged 3.1%, compared with South Africa's 1.1% (World Development Report 1994 Table 2, p. 164-5). In the high-income economies average GDP growth was 2.9%.

[29] See Fallon and Pereira da Silva (1994) p. 35.

import demand, in order to repay external debt and finance capital outflows;[30]

- the cumulative effects of disinvestment by outsiders, which began in the 1960s and accelerated from the Soweto riots in 1976 and once again from the mid-1980s in response to escalating violence and civil unrest;
- the impact of growing violence and political uncertainty on domestic business confidence and investment;
- the impact of protection and import-substitution policies followed from the 1920s but intensified during the 1960s, leading to featherbedding of inefficient domestic producers, restricting competition and the development of industrial exports, and with a declining impact on growth as opportunities for further import substitution were exhausted;[31]
- falling productivity of the capital stock, with much of investment being in the lower-productivity public sector, overinvestment by parastatals leading to substantial underutilisation of capacity, and tax incentives to over-investment in capital in the private sector;
- the direct costs of maintaining the apartheid regime, in terms of bureaucratic structures involving enormous duplication and inefficiency[32] as well as high expenditure on "security";
- the growing strength of black labour unions in the late-1970s/early 1980s and the easing and subsequent elimination of the system of influx controls, associated with wage increases significantly in excess of productivity gains and significant industrial unrest and disruption of production;
- inadequate accumulation of skills by the workforce, with a growing imbalance between the "quality" of labour and the capital stock; this has been associated with insufficient state investment in improving the quality of education for blacks, as well as the impact of rising violence and disruption of education.

No attempt will be made here to assess the relative importance of the various factors, although one's view of prospects for the future will obviously be affected by what one

---

[30] Financial sanctions, in particular the withdrawal of foreign credit lines, are generally regarded as having a much more significant impact than the trade sanctions which were also imposed on South Africa by most countries.

[31] See for example Fallon and Pereira da Silva (1994, Ch. IV), Holden (1992).

[32] For example, by the 1980s there were 17 distinct Departments of Education for different areas/population groups.

regards as the main reasons for the stagnation of the last decade or more.[33] Financial and trade sanctions were clearly important and have by now been removed: the environment for international investment in South Africa is entirely different following the strikingly successful political transition. South Africa now has access to finance from the multilateral institutions and the international financial markets, and there are high hopes of substantial foreign direct investment. As far as industrial and trade policy are concerned, some move away from inward-looking strategies is expected although as one might expect there is considerable resistance to reducing protection from those who are currently highly "sheltered". Government expenditure on meeting "basic needs" under the Reconstruction and Development Programme, to be discussed in detail below, is expected to boost demand in sectors such as building and construction over the next number of years. The depths of the recent recession also provides scope for a substantial "bounce-back" in growth in the short term, with substantial spare capacity to be taken up as demand recovers.

All this contributes to the expectation that there will be a sharp pick-up in economic growth in the short term, with the potential for further increases in the medium term. Real GDP growth in 1994 is expected to be about 2-2.5%, significantly less than was being forecast immediately after the elections, but this is expected to rise to about 4% in 1995. A growth rate of above 5% is widely seen as potentially achievable in subsequent years. With such a growth rate, as will be discussed below, major inroads could be made by the end of the decade into the backlog of public social investment widely regarded as necessary to meet basic needs. If growth is significantly lower, however, such a programme would be difficult to implement without running into serious balance-of-payments and fiscal problems. It is therefore worth looking in a little more detail at the nature of these balance of payments and fiscal constraints.

The role of the balance of payments as a key constraint on policy and economic activity following the implementation of financial sanctions in 1985 has already been noted. Up to

[33] It is worth quoting Porter's (1991) summary: "The shortages of skilled labour, the divestment of foreign corporations, the concern for internal security, the flight of capital, the expansion of industries to promote autarky rather than comparative advantage, the closing of export and international capital markets - all combined to stop growth" (p. 7).

that time South Africa ran a current account deficit more often than a surplus, and by 1985 foreign debt had accumulated to about 43% of GDP. From 1985 South Africa's external borrowing options were extremely limited and existing debt had to be rescheduled and a timetable for repayment agreed. A multiple exchange rate system was re-introduced to limit capital outflows, and a current account surplus was effectively required to finance the capital deficit produced by public external debt repayment and private capital outflows.[34] The situation facing the new government is quite different. International capital markets and multilateral agencies can now serve as sources of borrowing, and the abolition of the dual exchange rate system in the not-too-distant future is anticipated.[35] The nature of the balance of payments constraint has thus altered fundamentally.[36] South Africa can now revert to the more usual situation for a country at its stage of development, of financing a current account deficit through the capital account. One positive result of enforced debt repayment is that the level of external debt now stands at only about 14% of GDP,[37] so foreign borrowing is a realistic option for the government.

Private capital outflows continued to put pressure on the exchange rate and drain the reserves right up to the elections, and the prospects there remain uncertain. In addition, a great deal of emphasis has been put in recent policy commentary and debate on the need to reassure international financial markets and encourage foreign investment in the South African economy. Some disappointment has indeed already been expressed with the response of "the markets" to the successful political transition, though this seems premature. Some commentators have drawn an interesting parallel with the position facing Labour governments in the United Kingdom, where the potential for exchange rate instability and balance of payments crises are seen as limiting freedom of action particularly severely because financial

[34] It has been estimated that the economy could not sustain a real growth rate of more than 1% per annum because of this lack of access to external finance (MERG 1993 p.67).

[35] The Governor of the Reserve Bank has however recently dampened expectations that abolition of the Financial Rand is imminent.

[36] An IMF loan of $850 million has already been important in helping to finance the large-scale capital outflows in the period up to the April 1994 elections.

[37] Reserve Bank Quarterly Bulletin, June 1994.

markets are especially nervous and volatile. At root, of course, the extent to which the balance of payments acts as a constraint on growth depends not only on the ability to finance current account deficits, but on the size of these deficits and thus on export performance. However, the fact that South Africa can move from a situation where capital outflows have been 2-3% of GDP to one where inflows of perhaps 1-2% can be expected marks a dramatic change.

The perceived need to "reassure" both foreign and domestic capital markets and (potential) investors leads to a concentration of attention among commentators on the state of the public finances and fiscal "discipline". The problem this poses the incoming government is that both public expenditure and tax levels and the fiscal deficit are already relatively high. Government expenditure rose rapidly as a proportion of national income in the 1980s, and by 1993 had reached about 40% of GDP. Government revenue, although not keeping pace with expenditure, now comes to over 30% of GDP (of which tax revenue is about 25% of GDP). The budget deficit grew particularly rapidly in the early 1990s in the face of deep recession, reaching 8.6% of GDP in fiscal year 1992/93, with total government debt reaching 45% of GDP by end-1992. In 1993/94 the budget deficit fell but was still 6.9% of GDP. A World Bank study has suggested that a deficit of about 6% would be sustainable in the context of moderate growth, in that it would allow a debt/GDP ratio of about 35% to be maintained.[38] Some see these as unduly restrictive targets and argue that there is scope for higher borrowing in the first few years of the new government, to be clawed back when growth is high.[39] The central problem faced by such a strategy is of course one of credibility, whether such commitments would convince financial markets.

Analysts of differing political hues appear to accept that there is little scope for financing additional government spending by a sustained increase in the general level of taxation. The overall level of taxation (as a percentage of GDP) is not very much above the average for countries at a similar stage of development,[40] but the tax system is distinctive in relying particularly heavily on income tax, with middle-income earners bearing a relatively heavy

[38] Kahn et al (1992).

[39] See MERG (1993).

[40] See Loots (, Lachman and Bercuson (Fallon and Pereira da Silva (

burden and top tax rate at 43% is as high as in many industrial countries.[41] Together with the size of the fiscal deficit, this implies that the primary emphasis of policy will be on redirecting government expenditure, and this appears to be widely accepted as a central constraint on the way "reconstruction and development" is to be implemented.

The extent to which a broad consensus has emerged about the nature of the constraints facing the Government of National Unity is perhaps surprising. Though not everyone would agree, satisfying the external financial markets and encouraging foreign investment are widely seen as essential to economic growth. Attaining sustained high levels of private domestic investment is perhaps even more important from most perspectives. Both are dependent on fiscal "discipline" not only being maintained but being seen to be maintained. However the need for public expenditure on measures to improve the supply side of the economy, especially in upgrading skills, is also widely acknowledged as central to long-term growth prospects. Even more fundamentally, reducing "social backlogs" is also seen as the key to maintaining the socio-political harmony without which the required levels of investment and growth will not be attainable. Furthermore, the current level of unemployment and the expected growth in the labour force mean that even GDP growth of 5% per year would on its own leave unemployment at unacceptably high levels.[42] This faces the government with a difficult balancing act, and the indications so far as to how this is being approached are the topic of the next section.

3. Reconstruction and Development

The basis of economic and social policy in the "New South Africa" is provided by the Reconstruction and Development Programme (RDP). This was the election manifesto of the African National Congress (ANC) Alliance in the April 1994 elections, prepared during a

---

[41] Overall, according to a recent IMF study, "the tax burden on the white community appears to be relatively high even by the industrial country standards" - Lachman and Bercuson (1992) p. 2. The top income tax rate of 43% does not take into account the special levy imposed in the 1994 Budget.

[42] A recent study has indicated that GDP growth of 8% per annum would be required to reduce unemployment to a low level and absorb labour force growth.

lengthy period of consultation entailing six drafts before the final published version (ANC (1994) - which in fact appeared after the election). It sets out the framework for not only economic and social policy but also for developing the political institutions of the new democracy. It has been adopted as the central plank of policy by the Government of National Unity, and the political credibility of that government - and especially of the ANC - hangs on its successful implementation.

The RDP aims to provide a comprehensive approach to harnessing the resources of the country to reverse the effects of apartheid and attack poverty and deprivation over a five year period. Here we concentrate on the socio-economic rather than the political elements of the programme, though success in these spheres is clearly inter-dependent. We first describe the approach taken by the programme to meeting basic needs, and then its stance on macro-economic policy. The RDP itself is often rather general in language and open to different interpretations, so we then go on to discuss the extent to which the new government has put flesh on the bones of the RDP during its brief time in office, in particular in the 1994 Budget.

Meeting Basic Needs

One of the central principles of the RDP is that reconstruction and development should be parts of an integrated process, rather than seeing growth as preceding development. Economic growth is a basic goal, but the way in which it occurs and how it is distributed are crucial: trickle-down is rejected, the RDP aims to integrate growth, development, reconstruction and redistribution in a unified programme. The key to making the links between them is to be an infrastructural programme that will provide access to electricity, water, telecommunications, transport, health, education and training for all. This is intended both to meet basic needs and to open up previously suppressed economic and human potential.

The programme to meet basic needs comprises the following main elements:

1/ A "fundamental" **land reform** programme, involving redistribution of residential and farm land and restitution for those who lost land because of apartheid laws. Redistribution will use land already on sale, land acquired by corrupt means from the apartheid state, vacant government land, and expropriation with compensation (as required by the Interim

Constitution). Substantial funding from the government is envisaged, with beneficiaries paying in accordance with their means. A land tax to help free up underutilised land, raise revenue for rural infrastructure, and promote productive use of land is mentioned. A land claims court will restore land to those dispossessed by discriminatory legislation since 1913.

2/ A mass **housing** programme with the objective that, at a minimum, one million low-cost houses should be constructed over five years. About 300,000 houses per annum should be built by the end of the programme (compared with the 1992 figure of about 50,000). The private sector and housing associations and other community groups are seen as playing an important role in expanding housing construction and financing capacity, but substantial government funds will be involved - not less than five per cent of the budget by the end of the RDP is the goal. A mix of government and private sector funds for house purchase is envisaged. A national housing bank, a national home loan guarantee fund, targeted subsidies for purchasers, and encouragement of lending to low-income groups and areas by financial institutions are all mentioned.

3/ A national **water and sanitation** programme aiming to supply households with a clean, safe and accessible water supply, adequate sanitation facilities, and refuse removal, with specified short- and medium-term goals, and a restructuring of the water tariff to include cross-subsidisation of the poor.

4/ An **electrification** programme to provide access to electricity for an additional 2.5 million households by the year 2000, so that about 72% of households would then have access. This will cost about R12 billion, to be financed from within the industry as far as possible via cross-subsidisation from other users.

5/ A **transport** programme involving an extension in public transport, including the rail network, with car users being discouraged by parking, access and fuel levies.

6/ Restructuring the **health care** system, including a rationalised public administration (with District Health Authorities as the basic unit) emphasising primary health care, the immediate introduction of free health care at government hospitals and clinics for all children under six years of age, free maternity care by year three of the RDP, and within the life of the RDP "a whole range of services" must be available free to the aged, the disabled, the unemployed and students who cannot afford health care. Staff are to be retrained in line with the reorientation towards primary health care and redistribution to underserviced areas is to be brought about. "Active cooperation" between public and private sectors is to be encouraged.

7/ Restructuring the **social welfare** system, including social insurance for all workers, a social pension from the age of 60, and the provision of a social security safety-net in the form of cash or in-kind benefits for those most at risk.

8/ **Education and training** are seen as central to achieving all the other goals of the RDP, and a "massive expansion and qualitative improvement in the education and training system" is a key element in the programme. This includes a restructuring of the education and training bureaucracy, establishing an integrated qualifications system, expanding pre-school education, provision of 10 years of compulsory schooling,[43] better use of existing facilities and a school building programme, improved teacher training, and restructuring and expansion of the skills training system.

9/ While the RDP relies primarily on macroeconomic and industrial policies (to be discussed shortly) to produce sustained employment growth, a special **public works** programme linked with infrastructural projects to meet basic needs is seen as necessary for job creation in the shorter term.

Macroeconomic and Industrial Policy

A great deal of attention in public and academic discussion has focused on the role the state is to play in the South African economy, particularly because of statements in the past by the ANC favouring nationalisation (notably in the 1955 Freedom Charter) together with the participation of the South African Communist Party in the ANC Alliance. The RDP sets out the following position:

"We are convinced that neither a commandist central planning system nor an unfettered free market system can provide adequate solutions to the problems confronting us. Reconstruction and development will be achieved through the leading and enabling role of the state, a thriving private sector, and active involvement by all sectors of civil society which in combination will lead to sustainable growth" (p. 78-79).

The aim is to achieve "a dynamic balance between government intervention, the private

---

[43] Although generally taken as calling for 10 years *free* education, the programme in fact states only that "the democratic government must enable all children to go to school for at least 10 years" (p. 65).

sector, and the participation of civil society". (p. 80). A significant role is seen for public sector investment, but there is no blanket or dogmatic commitment for or against nationalisation or privatisation. The balance of evidence will guide decisions, with the option left open to increase the public sector in strategic areas (through nationalisation, taking shareholdings, set up new public corporations or joint ventures) and reduce it in others to enhance efficiency. (The word "socialism" does not appear at any point in the programme).

Similarly in trade and industry policy, no dogmatic position on protection or industrial development is advanced. In line with GATT requirements, tariff reductions and simplification of the tariff structure are to be implemented. The need to promote manufacturing exports through more cost-effective incentive schemes is also emphasised. Private investment and foreign investment are to be encouraged by providing a stable institutional and legal framework and consistent policies. The prominence given to anti-trust regulation is unsurprising given the degree of concentration of ownership in South African industry. The same applies to the emphasis on helping small businesses, particularly those run by black entrepreneurs. Mining and minerals dominate South Africa's exports, and the RDP recognises the need for this sector to expand exports to avoid balance of payments constraints in the short to medium term: however, it states that the current system of mineral rights "prevents the optimal development of mining" and envisages "a return of private mineral rights to the democratic government in line with the rest of the world" (p. 99).

As far as the financial sector is concerned, the need for greater efficiency in the mobilisation and allocation of national savings is emphasised, including modifying regulations and supporting innovative institutions and instruments which would help fund the RDP. The private sector will be encouraged to extend financial services to those who presently do not have access, and discrimination in lending on the grounds of race, gender or location will be prohibited. "Community banking" is to be encouraged and a Housing Bank set up to channel funds for housing, with the state backing a guarantee fund and providing about half the funds. The Reserve Bank is to have a more representative board of governors, and the interim constitution requires that the board record its decisions, publicise them when feasible, and is accountable to parliament.

The RDP has remarkably little to say about fiscal and monetary policy, but does discuss in general terms the financing of the RDP itself, which will of course have major implications for macroeconomic policy. It is stated unambiguously that the government cannot attempt to finance the entire programme: support from the private sector is essential. The "largest part" of all the RDP proposals is to be financed by "better use of existing resources", with restructuring public expenditure seen as the main element in the government's contribution to the RDP. The potential for inflation or balance-of-payments difficulties arising from government financing of the RDP is recognised, and the commitment is given that "in the long run" the RDP will redirect government spending rather than increasing it as a proportion of GDP (p. 143). The existing ratios of the (fiscal) deficit, borrowing and taxation are seen to be part of the macro-economic problem, and "in meeting the financing needs of the RDP and retaining macro stability during its implementation particular attention will be paid to these ratios" (p. 143). A Reconstruction Fund is envisaged, funded by a dedicated reconstruction bond and income from particular levies - for example on capital transfers, land or luxury goods - for elements of the RDP. Foreign borrowing must be used only for those elements of the programme that can potentially increase foreign exchange earnings: policies that "enhance national self-sufficiency" and reduce dependence on international financial institutions such as the World Bank and IMF must be pursued. Aid from foreign governments and non-governmental donors should be directed to supporting the RDP. The tax system is to be reviewed by a special Commission, with priorities to include elimination of the bias against women, reducing the income tax burden on middle-incomes, and zero-rating VAT on basic necessities.

The RDP in Practice

The RDP has caused enormous confusion, partly because it was evolving in the course of the election campaign, partly because it in so many areas advances general rather than specific goals, and partly because so little was set out about costing, with the relationship to the remainder of the budget and private sector involvement so unclear. What is most striking about the RDP as eventually published is not only how few specific targets it contains - notable exceptions being the "1 million houses", free public health care for children under six, electrification of 2.5 million homes and 10 years compulsory education - but also how much it leaves open about how its objectives are to be achieved.

Much of the immediate reaction to the RDP focused on costing. During the election campaign the figure of R39 billion had been widely quoted as the ANC's estimate of the total cost of the five-year RDP. Subsequently, a number of estimates including one by the ANC-linked National Institute for Economic Policy (NIEP) suggested that the cost would be very much higher - the NIEP estimate being a full cost of as much as R39 billion **in its final year**, or R135 billion over the five years. The NIEP argue that this expenditure can be accommodated with no increase in the fiscal deficit and a balance of payments deficit of only about 1% of GDP. Under its scenario, the RDP is to be financed by elimination of apartheid-serving programmes, savings from efficiency/productivity improvements in the public sector, a reallocation away from existing programmes, economic growth and enhanced collection boosting revenue, and private sector involvement, particularly in housing. Whatever about its precise costing and funding scenario, the NIEP study makes clear what has been repeatedly emphasised by government spokesmen - that the RDP is not to be an "add-on" to existing public spending programmes, but is intended to provide a framework for mobilising both public and private sector resources to meet basic needs and boost economic growth.

The first concrete indications of the intended funding of the RDP and its implications for the level of public spending and borrowing were provided by President Mandela's speech at the opening of Parliament in May. An initial allocation of R2.5 billion would be made to the RDP in the budget for 1994/95, with the annual allocation to rise over the life of the government and reach more than R10 billion by the fifth year. The initial R2.5 billion will be financed by savings and the redirection of the spending plans outlined in the previous government's preliminary budget proposals, with further "adjustments" by government departments to be required in future years. The government's commitment to continuing "fiscal rehabilitation" was stated, and targets spelt out: every effort would be made to contain real general government consumption at its present levels and to manage the budget deficit with a view to its continuous reduction, and a permanently higher level of taxation is to be avoided. A number of priority policy measures to be implemented immediately were also announced, including free medical care in public hospitals and clinics for children under the age of six and their mothers, a nutritional feeding scheme in primary schools, and a public works programme. (The government's commitment to introduce nine year's free compulsory schooling had been announced earlier). The speech also emphasised the need for economic growth and financial stability, the central role of the private sector in achieving high growth, and the need to create an attractive climate for both domestic and foreign investors. Trade policy would be guided by GATT commitments and "the determination systematically to open the economy to global competition in a carefully managed process".

The 1994/95 Budget, introduced in late June (rather than the customary March date because of the elections), provided more concrete guidance on the new government's spending intentions. In terms of overall fiscal stance, the headline figure was the deficit, of 6.6% of GDP. A first sight this represents a small reduction from the previous year's 6.9% (and a more substantial fall from 1992/93 when the deficit was over 8%), but in fact the figures are not directly comparable for two reasons: a/ the formerly "independent" TBVC states have now been incorporated into the budget, and b/ the underlying GDP figure has been raised by over 5% to take estimated informal sector activity more fully into account.[44] Although slightly higher than the target of 6% specified in agreeing the IMF loan prior to the election, the deficit has been generally seen as a signal that fiscal "discipline" is being maintained. Total expenditure is to rise by 10%, only about 1% more than the expected rate of inflation. Taxation as a percentage of GDP is virtually unchanged at just under 24%. This includes a special Transition Levy introduced to pay for the costs of the elections and certain other transition costs, amounting to almost R4 billion or 3% of total government spending: it levies 5% on incomes exceeding R50,000 per annum, for both individuals and companies, and has been clearly presented as once-off rather than recurring.

On the spending side, the most substantial increase in expenditure (of over 15%) was allocated to housing, where the total budget now amounts to over R2 billion or 1.5% of total expenditure. Health spending increases by 7%, a decline in real terms, but the proportion going to primary health care is to rise from 15% to 25% at the expense of other sectors. Education spending rises by 11%, a small increase in real terms, and will represent 22% of total expenditure. Social spending - health, education, social welfare and housing -now come to 45% of total government expenditure. Debt interest payments account for a further 17.5%.

---

[44] Without the upward revision to GDP the 1994/95 deficit would be about 7.2% of forecast GDP.

Changes to the tax system widely "floated" in the run-up to the Budget included restructuring VAT to zero-rate food and introduce higher rates on "luxuries", addressing the bias against married women in the income tax code, significantly increasing "sin" taxes on alcohol and tobacco, and increasing and restructuring capital taxation: none was in fact implemented, with a commission set up to report on restructuring the tax system in time for next year's budget. Apart from the transition levy income tax rates were left unchanged but there was no compensation for fiscal drag, so revenue from individual income taxes will still rise by 14% before the levy is taken into account, and by 18% in total.

The R2.5 billion allocated directly to the RDP in 1994/95 is to go to a separate RDP fund, which is to be allocated R5 billion in 1995/96, R7.5 billion the following year, then R10 billion, and R12.5 billion by the final year of the programme - a total of R37.5 billion (all in 1994 prices). The initial R2.5 billion for the RDP is funded by itemised reductions (on the pre-Budget expenditure estimates produced by the previous government) elsewhere in government spending, with Defence and grants to the former self-governing territories bearing the brunt.[45] The stated intention is that the Fund will be financed by similar reallocation in subsequent years. The Budget speech emphasised that the Fund is to be seen as only a part of the overall programme to promoting reconstruction and development: "the RDP Fund is intended as a mechanism to leverage priority changes", with the budget itself to be the primary source of finance and additional contributions from external donors and the private sector also envisaged.

Even after its first Budget much remains to be clarified about the government's intentions, and the White Paper on the RDP published in September has not filled in many of the gaps. The government's repetition of its recognition of fiscal constraints and commitment to "discipline" has helped to allay fears about run-away public spending and inflation, but the specific approaches to be adopted to trade and industrial policy, restructuring the tax system, and redistribution of land - to take a few examples - are largely an unknown at this stage. With so much emphasis on re-orienting government spending to meet socio-economic needs,

[45] Defence spending is still set to rise by 13%, but much of the increase is to be spent on the costs of integration of former members of the ANC's military wing and the armies of the TBVC states into the national army.

it is worth noting some of the difficulties this will face. A substantial shift towards social spending had in fact already occurred in recent years, with its share in the budget rising from 39% in 1988/89 to 44% in 1993/94, mostly at the expense of defence, police and prison services. Wages and salaries of public servants rose by almost 15% in 1994/5 and now absorb 39% of government expenditure, and the need to integrate the security forces and make the composition of the public service much more representative in racial terms will entail continued pressure on the wage bill. Flexibility is also limited by the job guarantees given to existing civil servants. With total government debt now at at 49% of GDP and debt interest accounting for 17% of expenditure, room for manoeuvre in reorienting expenditure is further limited.

4 Conclusion

A review of the evidence has demonstrated that South Africa has one of the most unequal distributions of personal income in the world, up to half the population live in poverty in terms of the standards customarily applied there, and racial differentials in income, living standards and such basic indicators as life expectancy are profound. Redistribution with growth must be the objective, bringing to the forefront in the starkest possibly manner the relationship between the two. The new government is committed to meeting basic needs while containing the overall level of government spending and borrowing (as a percentage of GDP), so restructuring public spending has become the central focus of policy.

Sustained high rates of economic growth, very much higher than in recent decades, appear attainable. Optimistic scenarios for what can be achieved in the medium term have been advanced, notably by the World Bank. On the basis of a large macroeconomic model, the Bank study (Fallon and de Silva 1994) concludes that GDP growth of about 5% per annum could be sustainable, with low inflation, a stable debt/GNP ratio, and external borrowing of no more than 2% of GDP in any year before 2001. On such a scenario, resources could be available for public investment sufficient to make major inroads into the backlogs in social expenditure: the Bank estimates that over 3% of GDP each year would be available over the 1994-2005 period. However, the study emphasises that this benign scenario is crucially dependent on, above all, a major revival in private sector investment. In the absence of such investment it sees increased government spending leading to a short-term boost in growth, which would then falter, leading to a continued rise in the ratio of debt to GDP and possibly a balance-of-payments crisis after two or three years, necessitating cut-backs in public spending bringing on renewed recession. The Bank study predictably points to the benefits of a more open trade policy, policies to enhance the supply side of the economy such as improving skills, and the damage which can be done by rapid wage increases. What is noteworthy though is the emphasis placed on "transparency, stability and credibility - all these matter as much as policies" (p. 16) in encouraging investment.

However desirable, these may be difficult to achieve, given the current political situation. Within the Government of National Unity there may be significant differences between the parties, and the dominant ANC Alliance is itself a broad church, encompassing a wide spectrum of views. Even more fundamentally, the old certainties about the role of the state which dominated economic thinking within the ANC in the past appear to have dissolved - remarkably quickly - leaving something of a vacuum. On the one hand, this should be much less threatening from the point of view of potential domestic and foreign investors, and certainly the new government has gone to considerable lengths to reassure them.[46] On the other hand, it means that a good deal of confusion and uncertainty are likely to persist, militating against a clear consistent policy message.

Two further points are worth discussion in conclusion. The first is unemployment, which poses the government with its biggest challenge. The expected rate of growth in the labour force means that making inroads into the level of unemployment will be extremely difficult. Even under the most benign scenario advanced by the World Bank study, the percentage of the labour force out of wage employment is almost 37% in 1998-2001 and 26% in 2002-2005. Although the RDP highlights the need for jobs rather than hand-outs, special public works programmes (or informal sector employment) will hardly be sufficient to provide support for most of these people.

The second issue is the extent of inequality in the size distribution of income which might persist even if sustained high economic growth with an anti-poverty orientation is attained and a significant black business class is fostered. Even if the distribution of income and assets becomes much less starkly concentrated in the hands of one racial group, the distribution across persons or households may remain highly unequal in an international comparative perspective. The key issue here is the link between the distributions of income and wealth: how much more egalitarian can the former become while wealth is highly concentrated in a small proportion of the population, irrespective of its racial composition? This raises the fundamental dilemma of how to redistribute wealth without discouraging private investment

---

[46] This is illustrated by the content of the President's speech to the opening of Parliament, discussed above, and by the fact that both the Minister for Finance from the previous government and the Governor of the Reserve Bank, as well as top civil servants in the Finance ministry, were retained in place by the new government. (Finance Minister Keys subsequently announced his resignation, effective from October 1994, for personal reasons: his replacement is another non-political white businessman).

and producing capital flight. Here again the primary requirement may be to minimise uncertainty in the environment facing wealth-holders, rather than drawing back from, for example, capital taxation or significant land redistribution: achieving "transparency, stability and credibility" in that highly-charged area may however be particularly difficult politically.

Table 1: Decile Shares in Gross Income for South African Households, 1991

Decile	Share %
Bottom	0.2
2	0.8
3	1.1
4	1.8
5	2.9
6	4.7
7	6.8
8	11.2
9	19.3
Top	51.2
All	100.0
Gini	0.68

Source: Calculated from Whiteford and McGrath (1994) Table J, p. 94.

Table 2: Income Distribution in South Africa and Selected Other Countries

Country	Year	% Share of income/expenditure going to					
		bottom 20%	second quintile	third quintile	fourth quintile	top 20%	top 10%
South Africa[a]	1991	1.0	2.9	7.6	18.0	70.5	51.2
Botswana[b]	1985/6	3.6	6.9	11.4	19.2	58.9	42.9
Cote d'Ivoire[c]	1988	7.3	11.9	16.3	22.3	42.2	26.9
Senegal[b]	1991/2	3.5	7.0	11.6	19.3	58.6	42.8
Tanzania[b]	1991	2.4	5.7	10.4	18.7	62.7	46.5
Guinea-Bissau[b]	1991	2.1	6.5	12.0	20.6	58.9	42.4
Kenya[b]	1992	3.4	6.7	10.7	17.3	61.8	47.9
Ghana[b]	1988/9	7.0	11.3	15.8	21.8	44.1	29.0
Zimbabwe[b]	1990/1	4.0	6.3	10.0	17.4	62.3	46.9
India[b]	1989/90	8.8	12.5	16.2	21.3	41.3	27.1
Brazil[d]	1989	2.1	4.9	8.9	16.8	67.5	51.3
Chile[d]	1989	3.7	6.8	10.3	16.2	62.9	48.9
China[d]	1990	6.4	11.0	16.4	24.4	41.8	24.6
USA[a]	1985	4.7	11.0	17.4	25.0	41.9	25.0
UK[a]	1988	4.6	10.0	16.8	24.3	44.3	27.8

Notes: [a] Income shares of households.
[b] Expenditure shares of households.
[c] Expenditure per capita among persons.
[d] Income per capita among persons.

Source: South Africa from Table 1, other countries from World Development Report 1994, Table 30, p. 220-221.

Table 3: Racial Income Shares in South Africa, 1990-1991

	Year	Black	White	Coloured	Asian	Total
Population share	1991	75.2	13.5	8.7	2.6	100.0
Income Share:						
Whiteford/ McGrath	1991	29.9	59.5	6.8	3.8	100.0
Van der Berg	1990	35.4	52.6	8.4	3.6	100.0
Simkins	1990	33.0	53.9	9.2	3.9	100.0
McGrath	1980	24.9	65.0	7.2	3.0	100.0
McGrath	1970	19.8	71.2	6.7	2.4	100.0
McGrath	1960	20.5	71.9	5.6	1.9	100.0

Source: Whiteford and McGrath (1994) Table G1, p. 90, Van der Berg (1991), p. 11, Urban Foundation (1991) p. 9, and McGrath (1983), p. 42, 151.

Table 4: School Participation Rates by Racial Group, South Africa Mid-1980s

	% of Primary school age children in school	% of Secondary school age children in school
Whites	99	89
Asians	98	69
Coloureds	78	33
Blacks	70	20

Source: Friedman, Riorden and van den Berg (1990).

Table 5: Growth in GDP and Manufacturing Output, South Africa 1945-92

	% growth in	
	GDP in constant prices	manufacturing output
average 1946-49	3.8	9.1
average 1950-54	4.8	7.9
average 1954-59	4.7	4.9
average 1960-64	5.7	9.3
average 1964-69	5.3	7.7
average 1970-74	4.4	6.5
average 1974-79	2.1	3.7
average 1980-84	3.0	2.1
average 1984-89	1.5	0.8
average 1990-92	-1.2	-3.5
1993	1.2	0.0

Source: South Africa's National Accounts: Supplement to Reserve Bank Quarterly Bulletin, June 1994, Tables 5 and 2.

FIGURE 1: GDP AND MANUFACTURING OUTPUT GROWTH

SOUTH AFRICA 1946-93

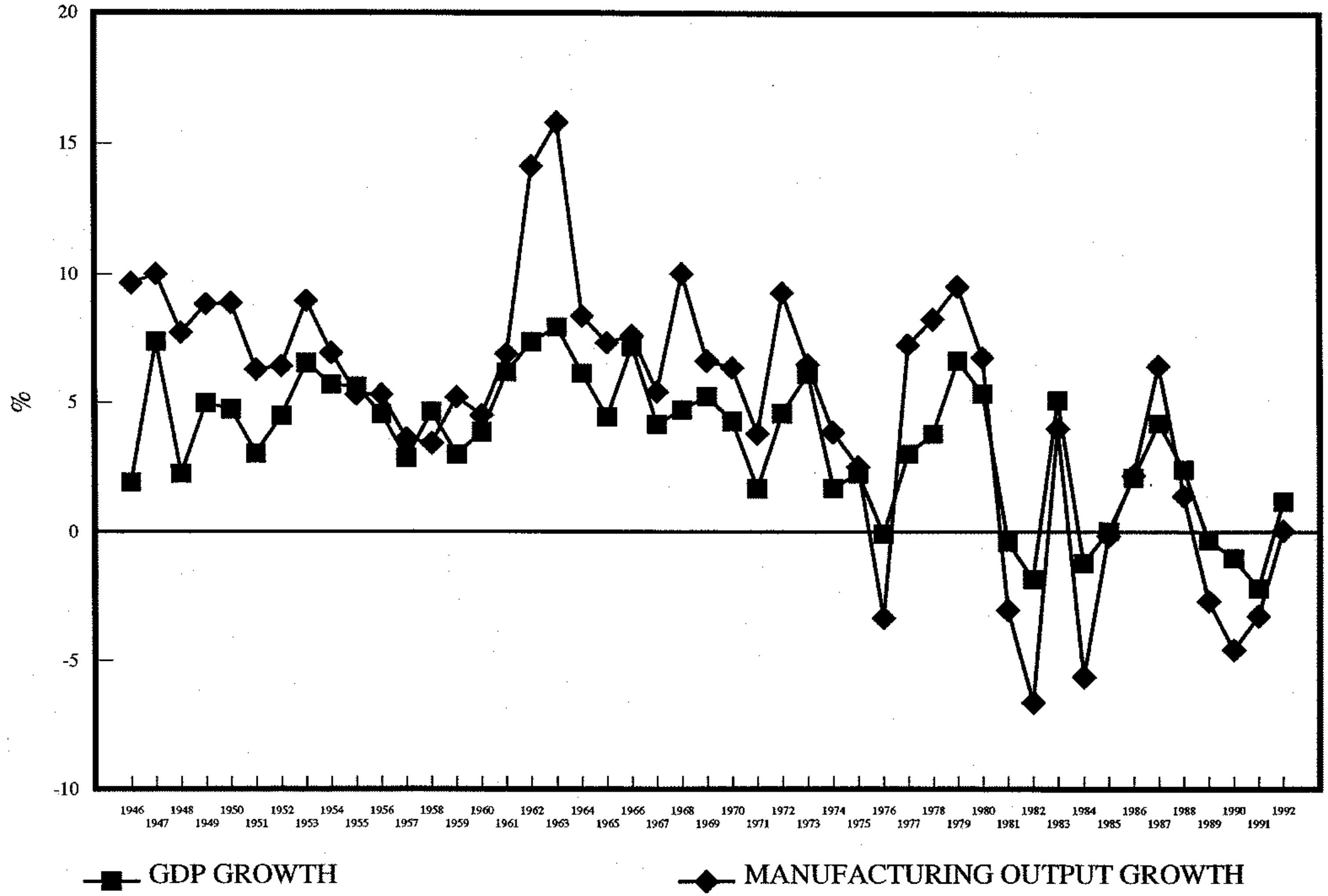
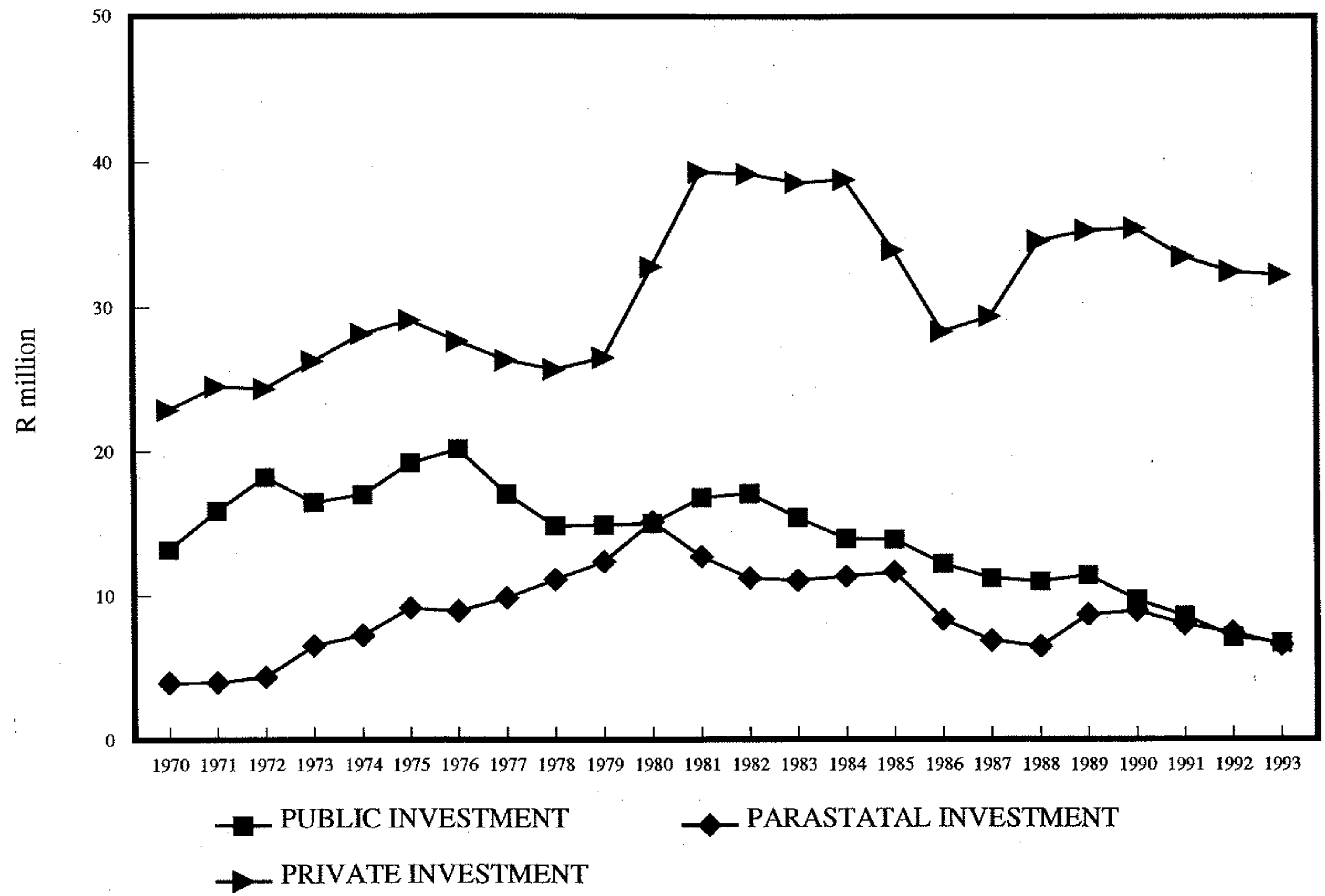


FIGURE 2: GROSS DOMESTIC FIXED INVESTMENT

SOUTH AFRICA 1970-93



REFERENCES

African National Congress (1994): *The Reconstruction and Development Programme*, ANC: Johannesburg

Barker, F.S. (1992): *The South African Labour Market: Critical Issues for Transition*, van Schaik: Pretoria.

Bradshaw, D., R. Dorrington and F. Sitas (1992): "The Level of Mortality in South Africa - What Does it Tell Us About Health?", *South African Medical Journal*, October.

Central Economic Advisory Service (1993): *The Restructuring of the South African Economy: A Normative Model Approach*, CEAS: Pretoria.

Devereux, S. (1983): *South African Income Distribution 1900-1980*, SALDRU Working Paper 51, University of Cape Town: Cape Town.

Fallon, P. and L. A. Pereira de Silva (1994): *South Africa: Economic Performance and Policies*, Informal Discussion Papers on Aspects of the Economy of South Africa No. 7, The World Bank: Washington D.C.

Fields, G.S. (1989): *A Compendium of Data on Inequality and Poverty for the Developing World*, Mimeo., Cornell University:

Friedman, S., R. Riorden and S. van den Berg (1990): The Distribution of Wealth in South Africa, *Monitor*, August.

Holden, M. (1992): "Trade Policy, Income Distribution and Growth", in R. Schrire (ed.) *Wealth or Poverty? Critical Choices for South Africa*, Oxford University Press: cape Town.

Kahn, B., S. Abdel and M. Walton (1992): *South Africa: Macroeconomic Issues for the Transition*, Informal Discussion Papers on Aspects of the Economy of South Africa No. 2, The World Bank: Washington D.C.

Lachman, D. (1992): "South Africa's Economic Challenges", *Finance and Development*, Vol 29 no. 2, pp. 6-9.

Lachman, D. and K. Bercuson (1992): *Economic Policies for a New South Africa*, International Monetary Fund: Washington D.C.

de Lange, A.R. and D.E.N. Van Seventer (1986): *Implications and Implementation of Income Redistribution: An Investigation Based on the SAM*, Second Carnegie Conference on Poverty and Development in South Africa, Post Conference Series No. 16, University of Cape Town: Cape Town.

Ligthelm, A.A. (1993): *Salient Features of Poverty in South Africa*, Research Report No. 198, Bureau of Market Research, University of South Africa: Pretoria.

Knight, J.B. and M. McGrath (1987): *The Erosion of Apartheid in the South African Labour Market: Measures and Mechanisms*, Applied Economics Discussion Papers, Institute for Economics and Statistics: Oxford.

Macro-economic Research Group (1993): *Making Democracy Work: A Framework for Macroeconomic Policy in South Africa,* Centre for Development Studies, University of the Western Cape: Cape Town.

McGrath, M. (1982): *Distribution of Personal Wealth in South Africa*, Occasional Paper No. 14, Economic Research Unit, University of Natal: Durban.

McGrath, M. (1983): *The Distribution of Personal Incomes in South Africa in Selected Years over the Period from 1945 to 1980*, Unpublished Ph. D. Thesis, University of Natal: Durban.

McGrath, M. (1984): *Inequality in the Size Distribution of Incomes in South Africa*, Staff Paper No. 2, Development Studies Unit, University of Natal: Durban.

Mills, G. and M. Koekemoer (1993): *Bekendstelling van die finale sosiale rekeningematriks, 1988*, Central Statistical Service: Pretoria.

Moll, P., N. Nattrass and L. Loots eds. (1991): *Redistribution: How Can it work in South Africa?* David Philip: Cape Town

Moll, T. (1991a): "Did the Apartheid Economy 'Fail'?" *Journal of Southern African Studies*, Vol. 17, No. 2, pp. 271-91.

Moll, T. (1991b) "Fathoming the Crisis?" *Journal of Southern African Studies*, Vol. 17, No. 3, pp. 560-66.

Moll, T. (1991c) "Macroeconomic Redistributive Packages in Developing Countries", in Moll, Nattrass and Loots eds. (1991). *Redistribution: How Can it work in South Africa?* David Philip: Cape Town

Moll, T. (1991): "From Booster to Brake? Apartheid and Economic Growth in Comparative Perspective", in Nattrass and Ardington eds. (1990), *The Political Economy of South Africa*, OUP: Cape Town/Oxford.

National Institute for Economic Policy (1994): *First Report on the Quantification of the Reconstruction and Development Programme*, MERG/NIEP: Johannesburg.

Nattrass, N. (1991): "Controversies About Capitalism and Apartheid in South Africa: An Economic Perspective", *Journal of Southern African Studies*, Vol. 17, No. 4, pp. 654-78.

Nattrass, N. and E. Ardington eds. (1990): *The Political Economy of South Africa*, OUP: Cape Town/Oxford.

Nel, P.A. and M.J. van Helden (1993): *The Minimum and Supplemented Living Levels of Non-*

Whites Residing in the Main and Other Selected Urban Areas of the RSA, August 1993, Research Report No. 201, Bureau of Market Research, University of South Africa: Pretoria.

Roux, A. (1991) "Options for Employment Creation", in Moll, Nattrass and Loots eds. (1991). *Redistribution: How Can it work in South Africa?* David Philip: Cape Town.

Schrire, R. ed. (1992): *Wealth or Poverty? Critical Choices for South Africa*, OUP: Cape Town.

Simkins, C. (1979): *The Distribution of Personal Income Among Income Recipients in South Africa, 1970 and 1976*, Economic Research Unit Discussion Paper, University of Natal: Durban.

Simkins, C. (1984): "What Has Been Happening to Income Distribution and Poverty in the Homelands?" *Development Southern Africa*, Vol. 1, No. 2, August, pp. 142-152.

Simkins, C. (1984): "Some Aspects of the Carnegie Conference", *Development Southern Africa*, Vol. 1, No. 2, August, pp. 180-195.

South African Institute of Race Relations (1994): *Race Relations Survey 1993/94*, SAIR: Johannesburg.

South African Reserve Bank (1994): South Africa's National Accounts: Supplement to Quarterly Bulletin, June, SARB:Johannesburg.

United Nations Development Programme (1994): World Development Report 1994, OUP: Oxford/New York.

Urban Foundation (1991): *Income Distribution Model*, Urban Foundation: Johannesburg.

Van Wyk, H. de J. (1989): *Personal Income of the SATBVC Countries by Population Group and Magisterial District*, Research Report No. 163, Bureau of Market Research, University of south Africa: Pretoria.

Van der Berg, S. (1991): *Prospects for Redistribution of Primary and Secondary Incomes in the Transition to Democracy*, Paper to Economic Society of South Africa Conference, Stellenbosch, October.

Whiteford, A. and M. McGrath (1994): *Distribution of Income in South Africa*, Human Sciences Research Council: Pretoria.

Wilson, F. and M. Ramphele (1989): *Uprooting Poverty: The South African Challenge*, David Philip: Cape Town/Norton: New York.

World Bank (1994): *Reducing Poverty in South Africa: Options for Equitable and Sustainable Growth*, The World Bank: Washington D.C.